

UNITED STATES OF AMERICA

+ + + + +

GENERAL ACCOUNTING OFFICE

COMMERCIAL ACTIVITIES PANEL

+ + + + +

WEDNESDAY

AUGUST 15, 2001

+ + + + +

The Panel met in the Fiesta Ballroom, Building 2490, Kenly Avenue, Lackland AFB, Texas, at 8:30 a.m., David Walker, Chairman, presiding.

I-N-D-E-X

Welcome	3
Congressional Perspective	6
Hon. Ciro D. Rodriguez	
<u>Panel 1</u> : Union Views	
American Federation of	22
Government Employees (AFGE)	
National Association of	43
Government Employees (NAGE)	
<u>Panel 2</u> : Interested Parties	59
<u>Panel 3</u> : Department of Defense	
Department of the Air Force	91
Department of the Army	102
Department of the Navy	110
<u>Panel 4</u> : Industry Views	140
<u>Panel 5</u> : Guam's Experiences With A-76	172
<u>Panel 6</u> : Technology and A-76	203
<u>Panel 7</u> : Interested Parties	228
Open Podium	247
Adjournment	259

P-R-O-C-E-E-D-I-N-G-S

MR. WALKER: Good morning. My name is Dave Walker. I'm the Comptroller General of the United States and head of the General Accounting Office and chair of the Commercial Activities Panel. It's my pleasure on behalf of my colleagues on the Panel to welcome all of you here today to what will be the third public hearing that we've held on the issue of commercial activities since the Panel was formed earlier this year.

As many of you know, by act of Congress last year the Congress asked the Comptroller General to form a panel to review a variety of issues dealing with commercial activities, and I did so, appointed members to represent various government agencies, various federal employee unions, contracting community, as well as selected other highly qualified individuals. We have had one hearing in Washington, DC in June, another last week in Indianapolis, and this is our third public hearing here in San Antonio.

I do not know whether or not we'll have any additional public hearings. They are not scheduled at the present time, but we reserve the right to do that. What we're trying to accomplish on the Commercial Activities Panel is not merely to look at A-76, although A-76 is something that is clearly within our charter and we are looking for testimony as to the pros and cons of A-76 and opportunities to make appropriate modifications.

We're also looking at the sourcing issue overall,

whether that involves A-76, strategic sourcing, partnerships, or other types of arrangements. We have to report to the Congress by May of 2002, and we fully expect to be able to do so.

In making our recommendations we will attempt to achieve a balance of interests among factors that have to be considered; for taxpayers, the government, federal employees, as well as the contracting community. It's a challenging assignment, but I think with the individuals that we have on this panel we're up to the task.

I would like to remind all the people who will be testifying today that we have 33 individuals scheduled to testify today. We want to hear from a wide range of groups; unless we have spoken with you in advance to the contrary, speakers will be provided with a three-minute limit. We have a timer to try to help you in that regard. You can submit whatever information you want for the record, your entire statement or additional supplements can be submitted for the record. It's important to summarize your remarks such that we can maximize the opportunity for interchange, for Q&A, and so that we can make sure that we can hear from all parties desiring to speak before us.

We have required that individuals notify us in advance if they want to speak, and so therefore we are fully subscribed with 33 individuals. We will leave the record open for another couple of weeks in case individuals who are testifying today or others might like to provide information for

consideration by the Panel, and all of the information that we receive will be posted to GAO's web-site, which is www.gao.gov.

With that, what I would like to do before we start with our first panel is to start with Mr. Tobias and have each of the Panel members or their representatives introduce themselves briefly and say who they're affiliated with, and to the extent that they are representing a Panel member, then please so note.

Bob.

MR. TOBIAS: I'm Robert Tobias, a professor at American University in Washington, DC.

MR. CAMM: I'm Frank Camm. I'm from the RAND Corporation.

MR. HARNAGE: Bobby Harnage, National President, American Federation of Government Employees.

MR. SIKES: I'm Joe Sikes. I'm the director of the Competitive Sourcing Program for the Department of Defense, and I'm representing Mr. Pete Aldridge, who's the Panel member today.

MS. STYLES: I'm Angela Styles. I'm from the Office of Management and Budget within the executive office of the president, and I'm representing Sean O'Keefe here today.

MR. SOLOWAY: I'm Stan Soloway. I'm the President, Professional Services Council.

MR. WALKER: Thank you.

With that, I'm pleased to have our first panelist, The Honorable Ciro Rodriguez, who's a member of Congress

representing the 28th District of Texas, and I also understand a piece of Lackland, Kelly, and a variety of other military installations here. It's an honor and a privilege, Mr. Rodriguez, to have you here today. Please proceed.

CONGRESSMAN RODRIGUEZ: Thank you very much, Mr. Chairman Walker. I want to thank you and the Panelists for allowing me to provide this testimony on the issue of outsourcing for the Department of Defense, and with me in case there's any questions and answers, the ones that have been working in the field, Norma Reyes, who heads my office here in San Antonio and participated with a lot of the meetings on the MEO, and Mr. Mark Gillman, who works on the Armed Services Committee with me in Washington, DC.

Before I start on my testimony let me just indicate that Congressman Underwood also faxed me some information that he asked me to submit for his testimony. I would just like to read a couple of things, and I want to submit that as testimony. He's a senior member of the Armed Services Committee, and as you well know we have three tiers on that committee, and he sits on the very top tier. And so I want to let you know that he's worked tirelessly on behalf of civil service workers, and he also indicated in terms of how unfair Guam has been treated in this aspect.

His testimony outlines the tragic case of Guam in the Navy's misguided attempt to save money at the expense of strategic

readiness and the economic future of the entire island, and that's his quote, and so I wanted to also make sure I submit his testimony before you, and I'll be providing that to you.

MR. WALKER: We'll be happy to have it in the record.

CONGRESSMAN RODRIGUEZ: Let me just that I'm glad the Panel has decided to pick San Antonio as the location for one of the three field hearings. San Antonio is unique in the Department of Defense because of the fact that we are running right now three whole base A-76 studies encompassing thousands of both Army and Air Force military and civilian personnel.

In addition, San Antonio has become the national model for innovative ways the military can use to reduce overhead costs. As a member of the Armed Services Committee in the House of Representatives I'm glad to provide testimony and make recommendations to this Panel, and we're looking forward to your recommendations. Outsourcing, especially the A-76 process, is very complex, and specific recommendations from this Panel on any ways that we can improve the process can help the Congress tremendously.

Let me just say that since we are here at the Lackland Air Force Base today we will likely hear a lot of what has transpired with the A-76 study that occurred here at Lackland and the process that took place. There were a lot of inconsistencies, a lot of difficulties, and a lot of problems that from the very onset.

As a background, Lackland last summer declared the private firm the winner, initially. This affected Lackland Air Force employees. They then appealed the decision. On appeal, the Air Force reversed the initial decision and then declared, in October 2000, that the government employees were the most efficient and that they were the winners. Then, 12 days before Christmas following an appeal to the GAO by the private firm, the Air Force Appeal Authority reversed the October decision and declared that the private firm was the winner, so we have this back and forth situation occurring.

In light of the numerous reversals in the Air Force decision I and all the members of the San Antonio Congressional Delegation, along with the two US Senators from Texas, requested an independent investigation of the issue by the Department of Defense Inspector General. We wanted to know if the A-76 process at Lackland Air Force Base was conducted in a fair and impartial manner.

The Department of Defense Inspector General report determined that the Air Force did not achieve supportable results from the Lackland competition. Specifically, the report stated that the independent review officer and the Source Selection Official's evaluation of the MEO's proposal were flawed and that the appeal process failed to assess the merits of the issues in the government employees' appeal.

Following the inspector general's report, I called on

the Air Force to halt the A-76 competition within the Air Education Training Command until the problems identified by the IG office were corrected. In addition, I called on the Air Force to recommit the Lackland study back into the process.

Chairman, I ask that the copies of that correspondence to the Air Force and Department of Defense Inspector General be made part of the record if possible.

MR. WALKER: Happy to do that.

CONGRESSMAN RODRIGUEZ: Thank you.

The numerous problems identified in the Lackland competition should be something that I think can be extremely helpful if you want to continue with the A-76 process, because I think it really puts to light some of the difficulties that both the private and the public sector encounter with the A-76 process.

The lack of equal appeal rights for the government employees; the MEO employees, can appeal only once. The private bidders, however, have numerous appeal options including access to federal courts, and that we found to be one of the main real serious problems when the employees only have the right to appeal once and while the other side has several appeals.

The inordinate amount of time involved in forming and carrying out the competition have a very negative impact on the morale and productivity of current government workers, also. In the 30 months that have transpired since the Lackland Air Force Base competition was initially announced the base civil

engineering squadron has lost 45 percent of its civilian work force. The squadron can only accomplish emergency repairs.

And remember, here are people that were told 'you got the contract,' then they were told 'you don't have the contract,' and then right before Christmas again, 'You don't.' So you can see in terms of how harsh that can be on an employee.

The conflict of interest issue means ethics codes need to be strengthened, and I would encourage you if you continue with this process that you look at the situation very seriously. A point of contention in the Lackland A-76 case was a former vice commander of the base who went to work for the private A-76 bidder during the competition process. While the actions of the vice-commander were determined to be legal, they sure don't pass the smell test.

Members of the Congress and the senior staffs are prohibited from lobbying their former colleagues, and in fact in the State of Texas I think we have a law that if you are a top official and you're handing out contracts you cannot for two years go and get a job with one of those contractors. So you might want to look at how we can come to grips with that issue, because I really feel that is extremely unethical and puts people in a very bad situation.

So, the goal of the A-76 is to save money and to improve efficiency. But spending millions to run the competition also is one of the areas that needs to be looked at. Preparing

the Lackland A-76 cost the government more than \$5.5 million, a majority of which was for the development of MEO, and so that whole process I think in some cases can be extremely helpful, but it is extremely difficult and it is very costly.

I would urge that the Panel closely examine the problems of the Lackland A-76 and make specific recommendations to Congress on ways to improve the A-76 competition process. During the hearing that our committee had in Washington we also heard about other possible conflicts of interest, none necessarily illegal but definitely unethical from my perspective in terms of involvement of people that had been with the military and then quickly find themselves in the private sector bidding against some of the workers.

The House Armed Services Committee is serious about reforming the Department of Defense outsourcing process. During the committee's consideration of defense authorization bill earlier this month, an amendment was adopted that strengthened the A-76 competition process and expanded public-private competition to both the contracting in as well as the contracting out. In addition, the amendment requires that Department of Defense establish a department-wide inventory to track the costs and size of the contracting work force.

The passage of this sweeping and controversial amendment on a bipartisan basis points to the urgency of change and the need for the GAO Panel to examine the full range of

outsourcing and competition issues. The OMB circular A-76 covers only a fraction of the outsourcing that occurs in the Department of Defense. Today it seems that only two tools to reduce costs are widely used: outsourcing work loads directly to the private sector or the A-76 based public-private competition.

We need other alternatives and other options that must be readily available to the commanders in the field. We need to trust the folks that are running the operations today to come up with other ways of saving resources other than the A-76 method.

For example, the Air Force instruction requires bases to have numerous separate support functions that contain duplication of staff. This stovepiping of support functions causes inefficiencies and doesn't provide the flexibility to combine functions to reduce manpower.

As an alternative, Brooks Air Force Base is reengineering its base support function, engineering savings of over 25 percent without the pain and cost of the A-76. However, the approvals necessary to allow for Brooks' reengineering occurred only after much grumbling from the Air Force Material Command. Greater flexibility must be provided to the field commanders and the managers.

At Ft. Sam Houston, the Army has begun and stopped and started again on the whole A-76 competition that began nearly five years ago. During the past five years the public works and logistic functions have lost so many quality personnel and

numerous support functions, the base is now contracting out at nearly 50 percent increase in operation costs.

In addition, millions of dollars have been spent to help the Army conduct the A-76 studies, which will take at least another 12 months. And one of the things that the managers at the public works and logistic departments should have is the flexibility to reorganize without going through that A-76, and that might be one of the methods that we look at without having to go through that process, see how they might be able to reorganize.

Their budgets have already been cut by over 20 percent by the administration, but the A-76 process continues.

I would also urge the Panel to examine options to provide greater flexibility for the managers in the field to reorganize to achieve the necessary savings. If they cannot succeed within a reasonable time then subject the functions to an A-76 competition.

In addition, greater accountability is needed on the entire outsourcing process to enable the Department of Defense as well as Congress to accurately measure any savings or cost increases from outsourcing or retention of activities in-house. One of the difficulties that we encountered is to actually determine whether there was any savings or not, and we're still having difficulties in getting good feedback, and there's some questions about what's being measured and what's not being measured regarding the BRAC process, and we're still trying to get

some accurate figures.

We've been given some figures, but there's questions about why they use certain things or they shouldn't use other things or whether they consider the environmental cleanups, for example, and those kinds of things, so I think it's important to look at those issues in terms of cost effectiveness.

Chairman Walker and other Panelists, I want to thank you for allowing me this opportunity to be here with you this morning.

MR. WALKER: Thank you, Congressman Rodriguez.

Questions from the Panelists?

MR. SOLOWAY: I have one question just as a clarification. Congressman, you said that the Lackland study cost \$5 million for the A-76 study at Lackland --

CONGRESSMAN RODRIGUEZ: That's my understanding.

MR. SOLOWAY: -- I'm not questioning. If you can just provide us with the source of that, because that was a rather astounding figure.

CONGRESSMAN RODRIGUEZ: That's my understanding. I'm going to ask my staff to clarify.

MR. GILLMAN: It came from the civil engineering function at Lackland.

CONGRESSMAN RODRIGUEZ: They said it cost them \$5 million to conduct the study?

MR. GILLMAN: \$5-1/2 million was the cost for the Air

Force -- for the entire Air Force's portion of it.

MR. WALKER: Do you know if that was hard dollars only, or is that hard dollars and soft dollars? Let me clarify what I mean by that.

MR. GILLMAN: I'll have to get back with you. I'm not sure of that.

MR. WALKER: By soft dollars I mean an allocation of payroll costs attributable to the time of people that were working on it, versus hard dollars, which would be out of pocket costs for consulting help and various other expenditures that --

CONGRESSMAN RODRIGUEZ: We can get back to you on more specifics as to how that might have been broken down.

MR. SIKES: There is a breakdown in the summary that we have in here of what that is, and I think it is a combination of both, so we have to separate that out.

MR. WALKER: Angela?

MS. STYLES: Morale, I think, has to be one of our primary concerns and you had mentioned a statistic that I hadn't heard before. You'd said that you've lost 45 percent of the civilian work force. Is that turnover or were they permanently lost?

CONGRESSMAN RODRIGUEZ: My understanding is -- I just have the figures -- it was 45 percent turnover since the process, and if you can understand the feeling that they had that initially they were told, "You no longer have the job here." The contract

goes to the private [sector], and then moved back to the public, and then back, and I'm going to ask my staff, who has gotten the data, to clarify.

MR. GILLMAN: Actually, the 45 percent was at Ft. Sam Houston --

MS. STYLES: Okay.

MR. GILLMAN: -- which started an A-76, then they stopped it and expanded it and then started it again. And as the congressman said in his testimony, they're about five years into their process, and during that process they've lost about 45 percent and, in turn lost a lot of in-house capability which, in turn, they have to contract out to run functions on the base.

MS. STYLES: And that's turnover at Ft. Sam Houston as opposed to just lost 45 percent?

MR. SOLOWAY: Those are people who've left voluntarily.

MS. STYLES: Okay.

MR. SOLOWAY: One last question, Congressman. At Lackland, since that one is relatively complete, although it's still not settled, what was -- when the government MEO came in with its bid, how many people -- what was the people difference between that and what the private sector was bidding? I don't know what the baseline was, but the MEO --

CONGRESSMAN RODRIGUEZ: Don't quote me on the figures. I think my staff might have these.

First of all, it was the largest contract to be put out, as far as I understand, about 240-something million, and my understanding was that the difference was between 1 or 2 million beyond that 10 percent, so the difference was very small in terms of the disparity.

There was some question over the fact that they used some staffing as a guide to go to the private sector, and they claim that that staffing shouldn't have been used.

And then apparently the people -- the independent group that came in to assess that -- because they asked me to get an independent group, because they felt that the thing was biased from the very beginning -- then at that point in time they ruled in their behalf.

It was very small, and of course we have the rule that it's 10 percent beyond that, but then we were talking about \$1 or \$2 million difference on a \$248 million contract.

MR. SOLOWAY: So what would have happened to the work force -- let's assume the work stayed in house and you have an MEO reduction of roughly the same, give or take, as the contractor, how many -- in the case of the contractor at least some percentage of them would have gone to work for the contractor presumably.

CONGRESSMAN RODRIGUEZ: We would hope so, yes.

MR. SOLOWAY: What would have happened to the folks had the -- if the work stays in house, what happens to those folks? In other words, you have that same reduction of people.

What happened to those people?

CONGRESSMAN RODRIGUEZ: I think those people had already left, and those would have remained there no matter what, in my understanding. Are you talking about the ones that were in question?

MR. SOLOWAY: Yes. I mean, today you have a situation -- you've had the same kind of churn at Lackland that you're talking about at Ft. Sam --

CONGRESSMAN RODRIGUEZ: Yes.

MR. SOLOWAY: -- because of the process that's caused the personnel problems, and I think there are fewer people there now than either the MEO or the contractor needs. But I'm talking about in the original balance.

I mean, one of the issues is we talk about jobs being lost, in quotes; there's some question as to how many jobs are actually lost because of people going to work for the contractor or other jobs in government --

MR. WALKER: I think we'll need to try to get the data for the record.

CONGRESSMAN RODRIGUEZ: Yes. I'm not clear on that, in all honesty.

MR. WALKER: I think the bottom line is this. A-76 competitions are tough enough. When you end up having a change which has happened here at Lackland, where the contractor allegedly wins, the MEO allegedly wins, the contractor allegedly

wins, you know, that type of situation is one that compounds the problems associated with this process.

We are looking not just at A-76; we're also looking broader than A-76.

You mentioned, Congressman Rodriguez, an important point, and that is presumably I thought that one of the things we were supposed to be trying to do in government is to try to achieve most efficient high-performing organizations across the board irrespective of whether or not they're public-private competitions, and so that's something I think that very much this Panel has in mind in trying to look at as part of our charter as well.

Any other questions or comments before we go to the next panel?

(No response.)

MR. WALKER: Thank you, Congressman Rodriguez. We appreciate your time.

CONGRESSMAN RODRIGUEZ: Thank you very much. I want to thank you for the hard work you're doing. I know you're going to get big bucks for this. Thank you very much.

(General laughter.)

MR. WALKER: I don't even think we're going to get little bucks for this.

Thank you very much.

If we can now go to our first panel, a number of

representatives for the American Federation of Government Employees I think are coming on first, and then a representative of the National Association of Government Employees. I believe we've divided this into two separate panels because of the numbers involved.

Lady and gentlemen, welcome. What we would like for you to do is again, we want to give each of you an opportunity to speak for up to three minutes if you so desire. We'll be happy to place anything you gave us in advance in the record and anything else you want to give us in the record as well. We want to maximize the opportunity for interchange, so if I can -- any particular order, ladies first. Is that all right?

MS. STRIPLING: Okay. I'll try to summarize and stay within the three minutes.

On the same subject that Congressman Rodriguez was talking about, I think we do have to keep the goals in mind that we're trying to find the most efficient way to run an organization, and within the OMB Circular A-76 it promotes the idea that the government should not compete for business with its citizens, but should rely on the private sector for services. I think that's a philosophical idea that shouldn't be our priority.

Another example of failing to keep our eyes on the prize is in the 1997 GAO report that repeatedly refers to encouraging privatization. It even suggests that legislation be enacted to reduce governmental resources as a way of crippling

federal agencies so that they cannot perform their functions, and this would force government to look to the private sector, and the author refers to this as the government's privatization efforts. I think that's not really what we're trying to do.

And again, as Congressman Rodriguez said, we federal employees believe that we can offer the government greater savings than can be achieved by hiring an outside company, whose bottom line is the size of their profit margin. Rather than public-private competition we suggest that the government give us the opportunity to reengineer our operations to greater efficiency, and that's exactly what we do every time we put together an MEO bid.

There is a report out by a man named Herbert Jasper. He's a scholar in the field of federal management. He warns that contracting for performance of government activities may make it harder to terminate or reorganize those activities, because the contractors, through their supporters in Congress, become a lobbying force for continuing those programs, whether they're needed or not, and that's something to be avoided.

There are also two GAO reports that came out in 1998 that stated that the Department of Defense has no reliable means of accumulating actual cost data to account for managed resources and that it will likely be many years before DOD is capable of providing accurate and reliable cost data on the functions it competes in A-76 cost data.

And yet ironically, in these same GAO reports the DOD is held up as an example to the civilian federal agencies, which are lagging behind in the use of A-76 and patting DOD on the back for leading the way, which appears to me that they're trudging blindly forward with hundreds of A-76 competitions that are based on unreliable cost data.

Our local and employees affected by the A-76 study at Lackland have some particular concerns. Primary among them is the gross inequity in the appeal or protest right currently existing in the process. These were mentioned by Congressman Rodriguez.

Contractors can protest to the GAO; federal employees cannot. Our lawsuit was dismissed from federal district court on the basis that we did not have prudential standing. Basically, the voices of federal employees have been silenced under current law.

One of our other congressmen, Congressman Gonzales, has initiated legislation in the House that would change the law to give us equal opportunity for protest and appeal.

MR. WALKER: Can I ask that you submit the rest of that for the record if you can, because I want to make sure that we can hear from your other colleagues. We've got 33 people testifying today, and I'm concerned that we need to try to keep on track. Is that all right? Thank you so much.

In fact, I think I may have made a mistake. Mr. Cloud, I think we were supposed to start with you. Last week we

started right to left. It really doesn't make any difference to me. What do you prefer?

MR. CLOUD: It doesn't matter.

MR. WALKER: Okay. Why don't you go ahead?

MR. CLOUD: Okay.

MR. WALKER: Thank you.

MR. CLOUD: Thank you for letting me have this time.

I think I know how the biblical David felt.

Anyway, I'm at the Naval Air Station in Ft. Worth. It's a combined joint reserve base, and it's sort of unique. We're trying to do some purple things there, and we have the first, I believe, combined Navy-Air Force study going on.

However, we're studying numbers of billets, apparently, instead of specific functions, because there are many Navy billets under study that are not under study with the corresponding Air Force billets, and we're supposed to be doing a combined effort.

There's also the TANG facility there, Texas Air National Guard, and none of their functions are under study, and they combine forces with us to do the same work in a lot of cases: places like civil engineering functions, family services, supply, medical and dental, safety, computer functions, and transportation.

It's of course demoralizing when the workers -- and there are many duplications of outsourcing strategies going on at

the same time. We're looking at the EDS thing for computer people while they're under study. We're doing utilities privatization on the shop people while they're under study, and there's some more of those sort of things going on. It looks like there's a conflict of contracting law here at some point, that some of these people may be also bidders with the A-76 contractor.

We spent over half a million dollars. I got these figures from the comptroller and the manpower office, so if you want to know where they come from -- we spent over \$500,000 on help on our small project, and we spent 12,500 man-hours on our self-study of this function, and that relates to six man-days.

On the other functions the efficiency reviews and the other strategies, we spent another four man-years: not man-days, man-years. That's a lot of time spent on these activities we could have been doing work.

During this same time, since 1996, we've reduced our manning by 27 percent, and that requires more outsourcing, so while we're studying ourselves, we're outsourcing our own work during the same time, and we've reduced our manning.

So we started with few people at the beginning, and we're reducing it even more. Services already contracted out without benefit of study were flight simulator, maintenance and housing maintenance requirements. They are more expensive and less expedient.

The decision of accomplishing government work should

be decided by best value, technology, quality of employees, including loyalty, dedication, and integrity. These are difficult qualities to produce from a contract. A-76 is supposed to be about efficiency, good management, strategic planning, good judgment, and common sense. We should consider the mission and strive for performance improvement.

At this time, the functional assessment is probably the most effective way to accomplish this. We have one of those going on right now, and you don't have to renegotiate this contract every year.

That's all I have.

MR. WALKER: Thank you, Mr. Cloud, very much.

Mr. Thorne?

MR. THORNE: Good morning. I'm Bruce Thorne, First Vice President of American Federation of Government Employees Local 2142 at the Corpus Christi Army Depot in Corpus Christi, Texas. Our local represents about 2,400 employees, of which one-fourth are administrative and support employees who support the other three-fourths of the work force that overhaul and repair some of our most sophisticated rotary-wing aircraft for our armed forces in our nation.

I thank you for the opportunity to speak before you here today about the problems with the commercial activities phase I have experienced at our depot.

The biggest problems we had is understanding all the

regulations that apply to the process and lack of training. In my 20 years at the depot, I have only seen a couple of CA studies, or shall I say I have seen a couple of CA studies started; however, they were never completed. I don't know why the first one was not completed, but the most recent one was stopped after three years of developing the MEO and resulted in a direct conversion of 14 positions in the facilities trades division to contract or a preferential procurement program source.

The other 200 or so positions were taken out of competition and placed in what I was told is an REO. You mean MEO, I said? No, REO said the chairperson of the agency's contracting staff. I said I never heard of an REO. What is that? She told me it is the residual efficient organization. I still never heard of that.

So what they decided to do as far as I could tell is restructure the base operations and not compete these 200 positions because they would save more money by not having to complete the study. You see, our problem is that as employee representatives I only get the training that my local can afford to send me to. The OMB circular A-76 is a lengthy and complicated process to understand, especially when you have other responsibilities to perform on your job.

Even though we are allowed limited participation in the process, it takes time and money for people to spend doing the studies and are expected to keep up with their regular

responsibilities at the same time.

I believe what we need is more extensive training in the whole commercial activities process and kept up to date on any changes that occur to the regulations. When my agency tells me that they are going to stop a CA study after three years of developing an MEO and do a direct conversion to the contract because it will save money in the long run I would like to be able to understand and explain to the employees that I represent who are losing their jobs how they came up with this analogy.

I know this, though. We believe that at the Corpus Christi Army Depot that we can go head to head with any private contractor and win a fair competition as long as we are able to compete on an even playing field and we know all the rules played by, and that they won't be changed in mid-stream.

The REO did not result in anybody losing their jobs at the depot, but it did result in several employees being moved to other positions. We have an aging work force. Most of these employees have been working at the depot for more than 20 years, and it does create a lot of stress to them and their families to all of a sudden one day find out that you have to learn a new job all over again.

Thank you.

MR. WALKER: Thank you, Mr. Thorne.

Mr. Villarreal.

MR. VILLARREAL: Good morning, Panel members. My

name is Mario Villarreal. I'm Executive Vice President of AFGE Local 1749 out of Laughlin Air Force Base, Del Rio, Texas. I'm also a government employee, civil service employee, jet engine mechanic.

I appear before this Panel to address a policy of the OMB Circular A-76 concerning the calculation of in-house overhead that unjustly penalizes our government MEO bid for the jet engine regionalization at Laughlin Air Force Base, Texas.

Our in-house government bid was lower prior to an administrative cost of 12 percent levied by the Circular on the government bid. Our contention is that the 12 percent is both arbitrary and artificial and that it inflates the government bid.

This application of a 12 percent factor against the in-house personnel cost places the in-house bid at a disadvantage and fails to count accurately for overhead costs.

Previous A-76 overhead costs applied to the government bid were based on concrete numbers. My work position and those of my colleagues as jet engine repairers were drastically affected by the 12 percent levied by the Circular on the government bid. We were not afforded the opportunity to compete on a level playing field and costs derived from the calculation of in-house overhead -- we are now reduced to working flight line maintenance.

We cannot help but arrive at a conclusion that the intent of the Circular as written is to relegate a work force of

faithful civil servants to work for a contractor at reduced wages for little or no benefits. The environment will not be conducive to best service for essential repair function of a weapons system used to train pilots for the defense of our nation at home and abroad.

I'd like to also address the Panel that we're fixing to go through another A-76 in 2004 where entire civil service maintenance at Laughlin Air Force Base will be competed. We'd like the opportunity, like Mr. Thorne said to compete on a level playing field. Because of that 12 percent that's levied on the government's bid, civil service employees will be extinct. We can't compete fairly.

Thank you, sir.

MR. WALKER: Thank you, Mr. Villarreal.

Any questions for these speakers? Stan?

MR. SOLOWAY: I have one question for Ms. Stripling.

You made an interesting comment which ties into what Mr. Walker and Congressman Rodriguez talked about in terms of high-performing organizations, and you talked about the need to be the reengineerer and so forth. What barriers exist that you see now to a government organization not being able to reengineer itself short of the pressures of a competition?

MS. STRIPLING: Well, I don't see any. I'm probably not in a position to see any, but the people who run our shop, who put together our MEO team, I'm sure would be able to address that

question.

MR. SOLOWAY: Mr. Villarreal, the Laughlin case is interesting, because I remember that from a few years ago, and I think some of the work was in fact contracted out, the maintenance work, if I'm not mistaken, at Laughlin. Is that right?

MR. VILLARREAL: Yes, sir. The entire jet engine organization. This affected my job as a jet engine repairer. We were concurrently refurbishing Laughlin Air Force Base and Randolph Air Force Base jet engines.

We were fixing to take on the whole of ATC, and we had gone all the way, bought new tools, new cabinets, everything, and we were prepared to do this, but because of the change in the Circular, which I think changed from 1983 to the new Circular, and because of the bid opening that was delayed, we fell under the new Circular. Therefore, at the end of the bid process the 12 percent was tacked on to our bid, which was lower than the contractor, so it was awarded to the contractor.

MR. SOLOWAY: That was an overhead factor, right --

MR. VILLARREAL: That was an overhead administrative --

MR. SOLOWAY: Was that the case where some folks suggested that the overhead factor should have been zero? I remember some testimony before Congress on Laughlin that there should have been no overhead factor.

MR. VILLARREAL: They shouldn't have been, because,

see, they're not identified; they're hidden costs actually, and we can't really identify the 12 percent overhead when it's administered to the bid and it goes through the compare system. The cost comparison system just tacks on 12 percent administrative overhead on all the government employees, and our contention is that we can't account for that 12 percent, and if we can't account for it, we can't compete fairly.

MS. STYLES: Yes. Continuing on with your comments about the overhead, I think you're essentially saying that the 12 percent overhead is really an arbitrary number that you can't say what's in that 12 percent. Do you have an alternative to that 12 percent or have you thought about what might be the alternative other than another arbitrary number?

MR. VILLARREAL: Actually, I believe it should be lower. We addressed this to our Congressman Rodriguez and Congressman Bonilla, and they addressed it to the -- to OMB -- David Childs, I believe, and Mr. Pearson -- and the actual overhead that they figured should have been at least down to 4 percent.

MS. STYLES: Okay.

Mr. Cloud, you had mentioned -- and I think this is a problem government-wide -- that the studies have been focused on FTEs as opposed to functions. Do you have any suggestions for moving the focus to looking at functions instead of just looking at FTE numbers?

MR. CLOUD: Yes, ma'am. I think before you announce a study, someone should look at the function of that facility and decide -- and everybody knows it goes back to numbers of dollars; "We have to reduce here. Where's the obvious place, maybe, to do it." But look at the whole aspect. Don't just take one billet -- for instance -- a CSR billet in New Orleans they're doing and then take one of six and look at it. That doesn't make sense.

Or in our case, we have a combined repair function and you're only looking at one piece of it, or -- it doesn't make -- someone should sit down ahead of time and say, "Okay; we're going to look at these functions. These will have less impact on the mission maybe, or this will increase the productivity of the mission if we look at this." Here's where we have problems.

Somebody maybe looks at some history from the past, talks with the people at the base that actually know the functions, and determine what functions are going to be studied and said, "Okay; you're going to study 180 billets here, give us some numbers." And it sort of looks like that's what we're getting, because some of the same functions are duplicated are not even being considered.

And in one case in the public work function -- and this is kind of interesting; I thought we were all under the same rule -- the Navy function is under study and the Air Force function is considered inherently governmental, and when you get

to the end of the study, whoever wins the MEO, whether it be the in-house group or the contractor, one group is going to do this work, so I mean, how -- it doesn't make sense to me.

MR. WALKER: Frank and then Bob, please.

MR. CAMM: Mr. Thorne, you said that it would be helpful to you all to have better training on A-76, and you mentioned that you'd like a more up to date information on regulations. What other sorts of training would be helpful to you?

MR. THORNE: Well, we'd like to get some extensive training on the whole process and how we can help our contracting staff at the agency in the process at the same time learn by being kept up to date to all the new regulations that's coming out.

MR. CAMM: Would it be helpful to you to have a permanent staff either in the MAJCOM or some place else in the organization that could handle these studies as they come up, or do you prefer to do the studies at the base level?

MR. THORNE: I think it would be better to do it at the base level.

MR. CAMM: Any particular reason why? What is the --

MR. THORNE: We don't -- like I said, in 20 years we've had two CA studies, so I don't see any reason to have a permanent staff there to do it.

MR. CAMM: No. I'm thinking if you were to have a permanent staff at AETC or at the MAJCOM, then you wouldn't have

to worry about the fact that you've only had two studies in such a long time and try to get up to speed on things. Is that something you all thought of?

MR. THORNE: No. We haven't thought of that, but having a permanent staff that knows all the in and outs in all the regulations would be helpful.

MR. WALKER: Bobby.

MR. TOBIAS: What Chairman Walker mentioned in his introductory remarks is that the Panel is looking beyond just A-76 and looking at the issue of how do we deliver better service at less cost, and so my question is what would you recommend to the Panel that would stimulate that kind of effort on a regular basis where you work?

MR. CLOUD: The Navy has a process that sort of does that. It's an efficiency review, and we've done those too. And you let the people in charge of those functions determine the best way to get that job done. This -- where we're fighting numbers here and we're fighting regulations, it's like you said. Sometimes the rules change and you didn't even know it. That happens.

Until a year ago I never heard of a functional analysis. Next think you know we're doing one. And there's a lot of little nuances that change the Circular A-76 that unless you're with this Panel or you know somebody with this Panel --

MR. TOBIAS: Just put A-76 out of your mind.

MR. CLOUD: Okay.

MR. TOBIAS: I'm looking -- I'm trying to say if there isn't any A-76.

MR. CLOUD: Okay.

MR. TOBIAS: I want to know what it would take to stimulate the kind of behavior on a regular basis that would lead to better service and less cost?

MR. CLOUD: I think some sort of in-house review should be mandated every so often; "Listen, can you do this better with less people or more efficiently, or actually ask the people doing the work, is there a better way to do this?" It's amazing how much they know.

MR. WALKER: Bob, can I piggyback for a second on that thought? I'd like to ask each of you and then anybody else who's going to be here today that if you have any ideas about what it would take in order to try to encourage governmental entities, whether they be in DOD or not in DOD, to try to move towards most efficient organizations in concept outside of A-76? What can be done to try to maximize the likelihood that all governmental entities will move to that point, because that's what we need to try to accomplish, and right now we've got this very complex, very lengthy process called A-76 which only deals with a very small subset of government to begin with.

And I think it directly relates, Bob, to your question. I think that's something that will really help this

Panel. Thank you, Bob, for allowing me to intervene.

MR. THORNE: I would like to be able to submit something at a later time on that.

MR. TOBIAS: That would be great.

MR. VILLARREAL: Along those lines, the government employees are screened differently as far as contract employees. We don't go on strike. We work directly for the government. The opportunities should be fair as far as competing.

MR. WALKER: Bob, I think you're up.

MR. HARNAGE: First let me say I thank you very much for appearing before the Panel today, and I do want to emphasize the fact that the record will remain open and you will be able to elaborate on some of your answers to the questions and some additional information. But one thing that seems to run very common among you four is training and opportunity.

Do any of the four of you have what you consider a good partnership relationship at your particular activity? Mr. Cloud?

MR. CLOUD: We do. We did, until the current president canceled it, but we do have a good relationship, and our commanding officer there supports our efforts. He's behind us.

MR. HARNAGE: The reason I asked that question is because we have had some testimony previously of a good partnership relationship, and it seemed to be that whatever the product is of the study it has more credibility to it where

there's a good partnership relation, and the reason I asked that question is repeatedly several of you have said you haven't had the opportunity to fully participate in the CA study even though A-76 gives you that right, and partnership would certainly be the tool for accomplishing that.

And the other thing was training. Do you know whether or not the managers that participated in the study were given any additional training?

MR. THORNE: I don't think they were given as much as they really need. I don't think they really understand all the process themselves, because I asked them questions and some of the questions I asked they couldn't even answer.

MR. HARNAGE: Mr. Cloud.

MR. CLOUD: Well, some of them went to some training. My supervisor, the public works officer, came back and said, he didn't feel like it was a lot of value. I don't feel like you can take anything from that two-day's training or three-day's training, whatever it was, and put it to much use.

However, our local brought Mr. Wiley Pearson down from AFGE national, and he put on a seminar for us and spent one day. Then the management folks were invited to attend, and they came and said, there's some information there we can really use, so it was more beneficial coming from the labor folks than the one that was put on by whoever put it on for the government.

MR. HARNAGE: But as far as your activities are

concerned there was no joint training put on for the people that would participate in the study?

MR. CLOUD: There was some joint training put on. It was like a one-day deal.

MR. HARNAGE: Okay.

MR. VILLARREAL: We are currently requesting with management that we do have a joint training partnership between management and labor. We were limited to the participation back in 1996, but then they wanted us to participate in the appeal process, but like Congressman Rodriguez says, we can only appeal it once and then that's it. But we're currently seeking joint training.

MR. WALKER: Mr. Cloud, I'll ask you a follow-up question to Bobby's question. You mentioned that you had a partnership arrangement until that arrangement was rescinded by the current administration.

MR. CLOUD: Right.

MR. WALKER: We have had testimony that one of the elements of success in sourcing arrangements whether it be A-76 or not A-76 is to have constructive labor-management working relationships. Obviously partnerships is one way to do that. My understanding is -- and you may know better than I do -- is that while the administration rescinded the mandate that you must have labor-management partnerships it did not preclude having those types of arrangements if the parties do desired.

And I guess my question --

MR. CLOUD: We still have the spirit. The spirit's still there.

MR. WALKER: You have the spirit. You don't have it -- at least not formal --

MR. CLOUD: And hopefully the next commanding officer will have the spirit too.

MR. WALKER: Okay. I understand. So in other words basically it relies upon the good faith of the parties involved --

MR. CLOUD: Right.

MR. WALKER: -- to a great extent without having some mandated mechanism if you will?

MR. CLOUD: Yes, sir. We have a good relationship as far as that goes, but --

MR. WALKER: We all share the same fate in the end, so let's hope that we're trying to work together because the taxpayers need us to.

Any other questions of this panel?

(No response.)

MR. WALKER: Thank you very much, and I'd like the next panel members to come up. If you could end up making your three minute statements we'll have a chance to interact as well. We would appreciate that.

(Pause.)

MR. WALKER: Welcome. Again, we'd like for each of

you to summarize your statement in no more than three minutes so we can have some interaction. We'll be happy to place the entire statement in the record or anything else that you desire to have in the record. If you can hit the highlights we'd love to hear from you. Why don't we start from left to right here?

Ms. Taylor.

MS. TAYLOR: Good morning. I'm Yolanda Taylor, the Executive Vice President of AFGE Local 1920 Ft. Hood.

On May 12, 1998 the Directorate of Public Works in Ft. Hood announced a commercial activity study of 435 spaces. The study began June 1, 1998, and is tentatively scheduled to reach initial decision in April 2002. The estimated cost for conducting this study is \$2.8 million. The Department of Defense provided approximately \$1,200 per space for a total of \$522,000 to the US Army Cost and Economic Analysis Center to pay Management Analysis, Incorporated, the consultant contractor for the study.

The actual cost to the Directorate of Public Works including civilian labor, actual equipment requirements, and actual contract cost is \$1,350,973. While including interview time on a standard operating order captured the cost of conducting civilian work force interviews for the performance work statement and development of the management study, it does not include fringe benefits for those employees. Additional civilian labor costs do not include fringe benefits for the six full-time commercial activity study team members.

The cost to our contracting command including civilian labor and actual equipment costs to date is \$287,000. This estimate cost reflects a projection of four man-years dedicated to the study from our contracting command. The estimated cost for civilian labor and associated costs for conducting the source selection evaluation board is \$607,000.

This report does not include costs associated with the Army audit agency review requirement, the staff Judge Advocate, the human resources specialist at the Civilian Personnel Advisory Center, or the Three Corps in Ft. Hood installation commercial activities program manager and the full-time borrowed military manpower.

While the estimated savings is procurement-sensitive as a result of the study being in progress, the estimated \$2.8 million dedicated to conducting this study will significantly impact the bottom line.

Based on the cost of conducting the CA study, we question whether the government can realize real savings under OMB circular number A-76.

Thank you.

MR. WALKER: Thank you, Ms. Taylor, very much.

Mr. Halloway.

MR. HALLOWAY: Good morning, ladies and gentlemen of the Panel, distinguished guests, and my union brothers and sisters. At Sheppard Air Force Base, Texas I have first-hand

experience with the outsourcing processes and inequities that go with them. I offer these seven points for your consideration, and I'll briefly go over some that have already been addressed by Congressman Rodriguez and others.

Contractors can and do repeatedly challenge the agency bid. The agency employees do not have this option. They're not considered an interested party. Second, during our MEO development there were again several agency rule changes that had tremendous impact on our ability to construct a bid package. We had to reinvent the wheel several times.

Third, the successful MEO bid is subject to audit for compliance with its contract. Contractors only have to produce an outcome. Fourth, the agency had options whether to compete or reorganize, and this is something we've addressed already. The latter would have allowed our in-house work force who know their business better than anyone to formulate a comparable cost effective organization without the time and cost of competition.

My fifth point speaks to direct conversion. This process denies federal employees any chance of demonstrating their potential for efficiency. This process also doesn't hold agency decision-makers fully accountable for the faulty, more expensive conversions.

My sixth area of concern is whether anyone pays attention to the cost of a study, and again, this has been reiterated. Whenever you take the up front expenses of people out

of hide from their organizations the impact it has, their salaries, the soft dollars, facility infrastructure costs, and equipment costs. The true outsourcing costs become staggering when you look at it from that aspect.

And finally, I understand that contractors use a team of experts to secure business. On the other hand, the agency must work with the tools that it has, and sometimes through inadequate training those tools are not as keen as they need to be to be on a level playing field with the contractors. Our MEO team did receive training, but it's not going to be adequate to get them to that same level of competition with the contractor side of the house.

I'm no means an expert on the A-76 process, but I do know my bargaining unit capabilities and qualities. I know that the agency is missing the best deal through wholesale outsourcing, and I know that the process does not do justice to the federal work force or the taxpaying citizenry.

Thank you.

MR. WALKER: Thank you very much, Mr. Halloway.

Mr. Lawson.

MR. LAWSON: I'm Gary Lawson with the National Association of Government Employees. I'm a national representative.

The Directorate of Logistics and the Directorate of Public Works at Ft. Leonard Wood, Missouri, was contracted out

under the A-76 program on or about 3 June 1988. The NAGE filed an appeal, but to no avail. Each year I requested another study be undertaken, and each year my request fell on deaf ears.

In Fiscal Year 1994, a study was done on the Directorate of Logistics. The results of that study was that it would be more cost effective to perform the work with a government work force than to continue allowing a private contractor to perform the work. The Directorate of Logistics came back to a government function on or about 4 October 1994. I asked that the Directorate of Public Works be studied again, but was informed by the Directorate of Resource Management that they did not have the funds nor the personnel to study the Directorate of Public Works.

The Directorate of Logistics function was brought back in house on 4 October 1994, and just 26 months later on 9 December 1996, we were notified that it was being studied again despite the recent cost comparison that showed a savings of \$1.6 million to perform the function in house. In addition, the Department of Defense was in the early stages of bringing two major schools, the chemical school and the military police school, to Ft. Leonard Wood under the BRAC.

It was argued by the union and the command that Ft. Leonard Wood should be excluded from the study because one, the recent study that brought the Directorate of Logistics back in-house, and two, the move in two major schools to Ft. Leonard Wood from Ft. McClellan, Alabama. Again, our arguments fell on deaf

ears.

On 17 November, 2000 we were notified by the Civilian Personnel Advisory Center and the Directorate of Resource Management that TRADOC had released over the internet to any prospective bidder a draft of the most efficient organization, the in-house cost estimate, and the mythology used to arrive at those figures.

We requested in writing a copy of what was provided to the contractors over the internet and were told we could not get that information because it would compromise the study. However, when we asked that the study be stopped because of the release of the information we were told that there was no harm done. We even received copies of correspondence from the Army auditing agency forwarded to Congressman Ike Skelton, stating that the contractors were more interested in beating other contractor's bids and were not interested in the government in-house figures.

In the particular case at Ft. Leonard Wood, it has been determined that none of the contractors bidding on the solicitation were qualified or capable of performing the work. That decision is open for appeal by the bidders. I might add at this time that no one appealed that, so the function is staying in house.

Information and data that is used is more often than not outdated and incorrect, yet the employees only have 20 days to appeal a decision to contract out. The A-76 system is biased

towards privatization and more often than not does not result in a cost savings to the taxpayer.

MR. WALKER: Thank you, Mr. Lawson.

Mr. Humphrey.

MR. HUMPHREY: I'm accompanying Mr. Lawson. I wasn't on the speaker's list, but I would like to say a short little deal.

I think government organizations should have to perform to their MEO but not to the A-76 process, which is not on a level playing field and not normally competitive; more or less comparing apples to oranges. Government employees are required to do different duties than contractor duties as far as classes.

As far as man-hours in the A-76 study they have to count 1,776 hours for productive hours for government employees, and the contractors can add up to 1,920 productive hours. And also the Department of Labor rates are different. If you look at the Department of Labor rates compared to federal employees we do our own local surveys, and there's quite a bit of difference in the Department of Labor, so I don't know how Department of Labor does their surveys and come up with their rates, but you can go out there and find different rates.

I'll be glad to answer questions.

MR. WALKER: Thank you, Mr. Humphrey.

Mr. Mann.

MR. MANN: Mr. Chairman, Panel, my name is Randy

Mann. I am the Penalty Appeals Coordinator at the Austin Service Center of the Internal Revenue Service. I'm here representing Chapter 72 of the National Treasury Employees Union, NTEU.

I've served my country over 21 years spending 6-1/2 years in the United States Army including a tour of Vietnam. Since January of 1987 I've worked for the IRS. I'm just as proud of my public service with the IRS as of my military service.

When I joined the Army I swore to defend the constitution of the United States. The same kind of pledge is made by all employees of the Internal Revenue Service.

Earlier this year I got a chance to hear Treasury Secretary O'Neill speak at the NTEU legislative conference in Washington. He spoke of the need for each treasury employee to feel every day that they have been treated with dignity and respect. That is a laudable goal, but with the arbitrary quotas set for privatizing government jobs as well as attempts by some to minimize pay raises for public servants progress towards that goal seems to be negligible.

I'm not perfect, but I try my very best to treat each taxpayer I deal with with dignity, respect, and fairness within the confines of the law. I never forget that not only am I a public servant, but I'm also a taxpayer. How likely would it be for a low paid employee of a government contractor to have that same kind of attitude? That loyalty pledge I spoke of earlier is not taken by contractors. Their loyalty is to their bottom line

and their pledge is to get a piece of a pie.

It wasn't very long ago that the privatization crowd forced the IRS to implement a completely disastrous pilot project to contract out tax collection to private debt collection agencies. Obviously the people pushing contracting quotas now have chosen to ignore that particular debacle.

Don't misunderstand me. I believe that there are very important jobs best left to the private sector. However, running government like a business is an absurd idea. The comparison isn't apples and oranges. It's apples and orangutans.

The whole basis for private enterprise is based on competition for customers. This is a totally impractical idea when applied to the delivery of government services.

To summarize, I believe that public service is best done for the common good of all Americans not just for those with a place at the public trough.

MR. WALKER: Thank you, Mr. Mann.

Questions for the panel, Frank?

MR. CAMM: Ms. Taylor, you had a very detailed outline of the costs associated with A-76, and we've heard similar numbers in other settings. Do you have any sense of what might be done to reduce those costs? Do you have any insight into how this process might be simplified or shortened?

MS. TAYLOR: This particular study will be a 48-month study. There were some costs that were not captured, and we were

unable to capture all of the associated costs or as you referred to earlier as the soft dollars. Because of the amount of manpower that has to be applied to meeting the requirements from other folks other than the team members it's hard to capture that cost and it's hard for us to try and come up with a process where we can eliminate some of the steps requirement in order to meet the requirements of the study.

So it's difficult for us to say that we can eliminate this part and reduce this cost. I believe with the money that was paid to the consultant contractor if we had chosen at that time to use that money to train our cast and use that money in house we could have reduced that \$522,000.

Our current consultant contractor has been relegated basically to a high-paid clerk because of the product that they've produced in the performance work statement. The same consultant contractor was used at Ft. Riley, and Ft. Riley fired them even though they had already received the dollars for the service. That was a cost that if we had reconsidered and have already considered for future studies that we would choose not to pay that particular cost but use that money to train our in-house work force.

MR. CAMM: Thank you.

MR. WALKER: Angela.

MS. STYLES: Mr. Halloway, you had mentioned that once an MEO wins that they're subject to audit but the contractors

are only responsible for outcomes, and I think a lot of the discussion among the Panel is what is the appropriate amount of data collection for contractors, and I know there are a lot of contractors who would say they're already subject to a lot of audits from DCAA, et cetera.

Do you have any thoughts or further information that you might be able to provide on what would be the appropriate level of data collection for the contractors, or on the other side, I think there are people that say the MEOs aren't followed after they win to make sure that they actually implement the MEO.

Do you have any additional --

MR. HALLOWAY: My understanding of the process the way that it is -- that the MEO is audited in a different fashion than contractors. Contractors only have to produce a product, an outcome. My feeling on this would be that the MEO should be afforded that same luxury with spot checks possibly. We've let the quality assurance functions go away under these concepts with outcome-based contracts.

MR. WALKER: Stan.

MR. SOLOWAY: When you say contractor is only responsible for outcome are you suggesting you don't think that they are held to any sort of cost or -- cost figures and so forth?

MR. HALLOWAY: Obviously their bid, yes, and their costs. If they exceed their contract costs that's something they have to eat, but as far as what I understand about the processes

in place now they don't endure the same level of scrutiny as the MEO does.

MR. WALKER: I've got a couple of questions.

Mr. Lawson, you mentioned an example I think back a number of years ago where there actually had been one activity that had been contracted out to the private sector and then it was brought back in to the government for the government workers to perform. Could you talk a little bit more about that? Were the employees that worked for the contractor at one point in time government workers and then they came back into the government, or how did that work?

MR. LAWSON: My understanding -- and I don't have any documentation to give as proof that it was the largest function that had been contracted to come back in house in excess of 350 employees on a maintenance contract. That went contract in 1988. That was a Directorate of Logistics at Ft. Leonard Wood.

The union locally spent \$20,000 to try to present our side of why we needed to do the work and why we would be more cost effective. We spent a lot of time and money on that procedure, but we were very limited on the appeal process as to what we could appeal. At the panel when we appealed we were told, "Your dollars are right. There is this loss, but that's not appealable so we can't consider it." That was over and over again that we showed dollar savings.

The majority of those government employees had a

right of first refusal and went to work for the contractor. Through attrition, and what have you, some of those fell by the wayside. Some of them had worked a long time to get to the retirement process. Some of them were so disgusted by the length of time, some I think nine or ten years that that was under study before it went contract that they chose not to go to work for the government or the contractor and just quit. Some of them took retirement, early retirement.

There were employees that when it came back in-house the government reversed the command where they were -- the contractor employees so to speak -- were given a right of first refusal to come back. There were many, many employees that worked for the contractor that weren't government employees before that got an opportunity to come back in to work for the government.

One of the things that took place was we had two functions that were studied together. They were separate but at the same time it was a Directorate of Logistics and the Directorate of Public Works. The Directorate of Public Works was approximately the same size. So we had roughly 700 to 800 employees -- fed employees that left when it went contract. Both functions went contract.

When we asked for them to review the Directorate of Public Works, which we in fact felt there would have been a bigger savings to either leave in house or to bring back in house we were told, we don't have the personnel or the money to do that, and one

of the reasons that they didn't have it was because of the very process of the study. Those positions were eliminated. They didn't have people to do the work because they were eliminated through the process.

We're slitting our own throats or wrists in that process.

MR. WALKER: Stan, do you want to follow up on that?

MR. SOLOWAY: The work that you're talking about that they couldn't compete for potential re-in-sourcing if you will, or bringing it back in house, was that recompeted in the private sector?

MR. LAWSON: I'm sorry. I didn't --

MR. SOLOWAY: Was that work that you're talking about where there were no billets internally to -- you said they couldn't have a reverse A-76 because they didn't have the billets and people and so forth because they'd been eliminated. The work that was outsourced, was it recompeted in the private sector?

MR. LAWSON: No.

MR. SOLOWAY: There was no --

MR. LAWSON: Oh, yes. It's been recompeted three or four times, but never considered as whether government should do the function. That's another area. I believe that any time that a contract is being restudied, even if it's already in the process, even if it's already a commercial activity, what should happen is that the government should be required to bid, so to

speak, to compete for that function to come back in house, but I have never seen that happen. I'm not saying it hasn't, but I've never seen that happen.

MR. WALKER: Mr. Mann, you talk about the importance of public service, and clearly it is a high and honorable calling. I've been in both the public and the private sector. Clearly there is a difference between to whom you owe a duty of loyalty between the public sector and the private sector, which I think we cannot lose sight of.

In the public sector you have a duty of loyalty to the greater good, to the collective best interest of all rather than the narrow interest of the few.

At the same point in time what we're trying to accomplish here is to maximize the economy, the efficiency, and the effectiveness of government for the benefit of the American people. One of the frustrations is when you go through these MEO processes, which right now we're just focused on A-76. On average, there is a 20 to 30 percent savings that is being achieved through that process.

And so that's why I come back to the question to say how can we encourage that type of activity irrespective of whether there's A-76, because while clearly there are differences between government and the private sector, the taxpayers deserve to have economical, effective, efficient organizations, and they want results. They don't just want process. They want results. And so

that's something to the extent that any of you have any ideas and would like to provide some information for the record we'd be more than happy to hear it.

MR. MANN: Could I respond to that?

MR. WALKER: Sure.

MR. MANN: Nobody uses numbers more than the IRS.
I'll just say that flat out.

MR. SOLOWAY: Maybe GAO --

(General laughter.)

MR. MANN: But I'm a firm believer in avoiding at all costs turning people into numbers. Mark Twain once said there's three kinds of lies: lies, damn lies, and statistics, and I firmly agree with that.

We have had situations within the IRS, for instance, where -- there are ten service centers within the Internal Revenue Service geographically spread out through the country. Each service center has slightly different ways of doing business. They don't even serve the same type of taxpayers all the time, and yet over and over again there has in the past been this big emphasis on where the Austin Service Center stacks up against the other service centers.

Well, it's -- you can't compare. They have totally different ways of doing business. I read recently where one of the problems with some of these studies comparing the costs of government doing a particular job and private business doing that

job is that their definition of overhead is completely different, and resolving that discrepancy is like trying to wrestle a greased pig. It just is not something that can readily -- you can't get your hands on it.

And so I just want to caution people against relying too much on these percentages and statistics and I just feel that this is part of a larger thing where there are some people who think the government is inherently evil, and that people who are out to make a profit can always do the better job, and I just think that's -- we have to be very careful about that attitude about -- well, the government is a bureaucracy, but so is General Motors, and I'm not going to make any apologies for the errors and mistakes that were made by the IRS or other federal agencies. I completely agree that those have been done.

But I think we just have to be real careful about putting numbers like -- somebody said 900,000 government jobs are commercial in nature. How can that possibly be? That's nine times as many people as work for the Internal Revenue Service.

MR. WALKER: I think first those that say the government is evil are just wrong. Secondly, this Panel has already had significant discussions about emphasis on percentages or FTEs and has expressed broad-based concern about those types of approaches, and that's clearly on our radar screen.

MR. MANN: Thank you.

MR. WALKER: And so I appreciate your concerns, but

in the end what we have to do is even if the federal workers did everything we need to make sure that government is going about its business achieving its mission in an economical, efficient, and effective manner and in a manner that focuses on results, and while cost is important it may not be everything. It is important.

And so it's trying to figure out how that can be accomplished on a broad scale not just through the A-76 process, which quite frankly we haven't heard one person testify that they are happy with the A-76 process, so we have a consensus on that.

Any other questions before we go to a brief break?
Mr. Lawson, a quick comment.

MR. LAWSON: I'd like to address a couple of issues very shortly, and one is that the source selection committees when they review the contractor's bids they do an interview and they have a rating or a scoring scheme that they use to draw up a score for that particular contractor.

It might be worth looking into to have a combination where a score is -- some procedure set up to score the in-house work force and review that, because currently there is not, and there are some advantages to an in-house work force even though people argue that much of this is not government in nature there are some loyalties and there are some things that get done. A contractor has to pay for extra work. The government assigns that extra work. The pay is the same. There's not any difference.

The other area that I would address would be that we need to have not just labor but employees empowered to have some say in how their work gets done. I can give an example where at Ft. Leonard Wood under the BRAC that I had mentioned in my statement where the two functions were coming to Ft. Leonard Wood they hadn't arrived yet and people were looking at work load. What was going to need to be done? One of the maintenance functions decided that they needed -- and I'm not sure of the figure -- eight to ten additional I believe they were wage grade 8 heavy mobile equipment mechanics.

We're not talking about much money, but we're talking about an example here where they decided that they needed to hire that many more at roughly \$30,000 apiece a year.

What ended up happening was they didn't need that. The union in fact under the partnership that was on at the time questioned that and tried to stop that hiring. We literally tried to stop these people from being hired. It fell on deaf ears. They were hired in these wage grade 8 heavy mobile equipment mechanics working on cranes, bulldozers, et cetera. Ended up because of no work working on lawnmower engines.

MR. WALKER: We hear you.

MR. LAWSON: We need to get labor involved in --

MR. WALKER: All right. One quick --

MR. SOLOWAY: I know we're heading to a break.

It was very interesting your first comment about how

the scoring and the source selection process, and actually it would be very helpful if you'd give us some more in writing on that.

If I understood you correctly you're suggesting that the in-house and contractor bids ought to go through a similar scoring process. Is that what you're essentially saying?

MR. LAWSON: Yes.

MR. SOLOWAY: Could you give us more detail on that in writing?

MR. LAWSON: I don't know that I could do it right now, but --

MR. SOLOWAY: No --

MR. LAWSON: -- but I could write something up and send it in. Yes.

MR. SOLOWAY: That would be great.

MR. WALKER: We're going to keep the record open for at least a couple of weeks afterwards. We'll decide on the exact date before the end of the hearing.

MR. LAWSON: That will be helpful. Thank you.

MR. WALKER: I want to thank all of you for your time. We're now going to take a 15 minute break. I'd like for the next panel to be ready to go at 10:15.

Thank you.

(Whereupon, a short recess was taken.)

MR. WALKER: Again, thank all of you for coming. I

remind you that your entire statement will be included in the record, and anything else that you might want to provide for a couple of weeks after this hearing. I would ask you to summarize your statements in no more than three minutes so we can have as much Q&A as possible.

I would also ask that you please speak into the microphones because I understand that while we can hear fine, there are a number of other people in the audience who are having some difficulty in hearing, and everybody wants to be able to hear what you have to say.

With that, since it doesn't appear that any particular order is called for here, Mr. Martin, why don't we start with you and we'll continue to go left to right?

Thank you.

MR. MARTIN: Good morning, Mr. Chairman, members of the committee. My name is Lawrence Martin and I'm an associate professor at Columbia University. I'd like to address the issue this morning of level playing field considerations in public-private competitions, whether they be A-76 or competitions done by state or local governments.

We've heard a lot mentioned already this morning about level playing field, or at least we've heard the term invoked many times. Everybody agrees that public-private competition should be conducted on a level playing field, but what exactly is a level playing field? I submit that we really don't

know. The public-private competition is an area in which practice has outpaced theory, and to the extent that we have any theory at all it's empirically derived from what we're actually doing: what works and what doesn't work.

A little while ago, I did a study for PriceWaterhouseCoopers on the subject of level playing field. I looked at the public-private competition policies of national and sub-national governments in the United States, Australia, and the United Kingdom. I looked at the general government response, identified 13 major level playing field considerations.

Then I looked at how governments attempted to address those major level playing field considerations, identified them as being either competitively neutral, tends to favor the public sector, tends to favor the private sector. This is not a definitive set but it was a pretty good set when I did it, and I think it's provoked a lot of discussion since this was published.

How does A-76 stack up against this criteria, these 13 major level playing field considerations? Not well. It approximates a level playing field but it does not achieve a level playing field. On the 13 major level playing field considerations according to my analysis, A-76 achieves competitive neutrality on about eight of them.

Areas where A-76 could stand some reconsideration -- there are a lot of areas that A-76 could stand some reconsideration -- but with respect to level playing field I think

the committee might want to consider revisiting the issue of a sequential process versus a parallel process -- right now the process is essentially sequential; more consideration to the purchaser-provider split. This is, the terminology used in the United Kingdom. That is trying to create a quasi-arms length transaction between elements of the public sector that are preparing the bid and elements of the public sector that are going to evaluate that bid, and this has been very clear and very murky, although there was a decision in 1999 by the Comptroller General of the United States saying that the people can't be one and the same.

Cost comparison methods -- it escapes me why the in-house costs are computed using fully allocated costs. I don't think there was a management accounting textbook that would recommend that approach for alternative choice situations.

Consideration should also be given to dealing more equitably with the issue of contract administration costs, and finally, penalties for public sector failure to perform.

Thank you.

MR. WALKER: Thank you very much.

Mr. Hungate.

MR. HUNGATE: Mr. Walker, Panel members, my name is Alan Hungate and I'm the Director of Finance for Central Operations at Motorola's Integrated Information Systems Group, and I'm also the Chairman of the Financial Executive International's

Committee on Government Business.

Speaking for myself, I spent over 30 years in government contracting and about 19 of those were as a government employee. FEI represents 15,000 CFOs, treasurers, comptrollers, and senior financial executives, and over 18,000 corporations, and the Committee on Government Business is authorized to formulate positions and comment on government policies such as this.

We certainly support the objectives of the Panel in that we think this should be a neutral, unbiased, competitive evaluation which is fair, and to do that we think you have to remove all the bias and those people making decisions have to have no interest in the outcome. We think that the two step process should be eliminated. Industry cannot use its bid and proposal money which is very limited in a process that they don't know the outcome in over two to four years.

As you know, industry is evaluated on a quarterly basis, and that is much too long of a process.

All the people that participate should be subject to the same rules, and I believe we've heard that before today. Cost recovery methods should be the same. If we're subject to federal acquisition regulation cost accounting standards all bidders should be subject to those types of things. If we have to identify all of our costs in accordance with government regulations the playing field has to be level and all bidders should have to do that.

We think that the 10 percent differential should be eliminated. If it's going to be a head to head competition it should be a true head to head competition. We believe that there should be best value criteria used. That's laid out in the FAR which has the problem solving ability and approaches used by the vendors. What's the management team approach, past performance, technical qualifications of the team.

We think that everyone should be held accountable after the award is made to meet performance. The MEOs as well as the contractors -- you bid on a criteria. You should be held accountable to that criteria. We think that outsourcing has been successful in industry and we think there's many examples of that: desktop computers, everyone in industry or many in industry have those.

We've found that there are core competencies in areas like that, and that they can do that much better than we can. Relocation is an example of something that's been outsourced, benefit processing, pension administration, training activities, and in my testimony I've listed some of the other candidates that could be used.

The PriceWaterhouseCoopers study certainly showed in their survey that outsourcing is a good process to have, and it is a successful one that results in more efficiency and saving money.

And as a final comment on my time being up I think that we certainly have to consider the people -- the government

employees that are involved in these activities. You can't just wipe them clean. You could certainly provide incentives to organizations to accept the government employees--qualified people--and maintain them in the organizations, or you could have a public company formed from the government employees so they couldn't be swept away by a powerful company outside. They could be protected for a couple of years.

We think, in summary, there needs to be a level playing field exactly.

MR. WALKER: Thank you, Mr. Hungate.

Ms. Fiorino.

MS. FIORINO: Thank you.

Honorable and distinguished Panel members, my name is Joan Fiorino. I am the mother of a fourth grader and a seventh grader, a native San Antonion who has grown up in the culture of civil service. I practice federal procurement law and have been doing so since 1987. I am a student of the Circular as I present to you today.

My relevant experience includes legal representation of private sector offerors in two phases only of A-76 cost comparison studies: the public period following announcement of a tentative cost comparison decision and the administrative appeal process. The message I respectfully convey today pertains to these two processes, and it's a call for accountability.

So much confidence as we know has been lost in the

process, or perhaps there has never been a chance for confidence to be established in the process. The key to the development of this confidence is accountability, and the public review period and the administrative appeal process embody the very test to ensure the accountability of a particular study. Increased accountability in these two phases may be achieved in four particular ways.

And being a student of the Circular, I have learned that although some things appear in the Circular and the revised supplemental handbook it doesn't necessarily mean that they have been understood and put into practice.

In the first way, development of a solicitation that is equally suited to the development and evaluation of the MEO and the private sector offerors. Once a solicitation is so developed, I believe that contractors are in the best position to test the fairness of that solicitation through a dedicated independent ombudsman who has expertise in A-76 and procurement issues so that the long, drawn out process of protests can potentially be avoided, and contractors are reluctant to do solicitation type protests in this particular phase.

Number two, the appearance of conflict of interest must be avoided. This will achieve or regain confidence in this process and cause its success. Evaluators of all offerors including the MEO must be common, organizationally independent, and have representation from the private sector. This can bring

about fairness in the evaluation and testing process.

Number three, the evaluation of the MEO and the TPP or the technical performance plan must be based on the same evaluation criteria set forth in the solicitation. Current processes often prevent meaningful public review periods because you are literally comparing apples and oranges. If both the MEO and the private sector offeror are required to look the same, be structured similarly, then public review periods can be more meaningful.

And finally, the public review period as I have in my outline is always the first struggle of obtaining information that should be made public, and there are two ways to do this: through public disclosure on the internet of mandatory items, and then also an enhanced debriefing that's explained in my material.

MR. WALKER: Thank you, Ms. Fiorino.

Mr. Kleinman.

MR. KLEINMAN: I'm from CNA, which is a non-profit research organization, and we've been examining the A-76 program for over ten years, and I'll briefly summarize some of the results.

First, it is a program that few support philosophically. Some argue that we should outsource all work that is not inherently governmental. Others argue that we should keep all such work in house. Virtually no one endorses--on--principle direct competition between public and private

organizations.

So then how do we justify the program here? I believe there are two points. One, most support activities are in fact in gray areas. We shouldn't start with a presumption that they naturally fall in either the public or private sector. The A-76 program provides a mechanism to evaluate alternative organizational structures.

And two, it is in the government's interest that all providers of services whether they are a public organization or a private organization should be able to demonstrate to the government that they are the best value, and the A-76 provides such a mechanism, so it is the right program, and we can agree on the best provider and it makes it the choice in a competitive framework.

It is a competition program. It is not an outsourcing program. From our evidence, the work of our research, the program has clearly saved the government money. In the 1980s over 30 percent, since 1995 results have been over 40 percent. Half of the competitions continue to be won by in-house teams.

These are long-term savings. Detailed follow-up studies show that the savings persist years later. Performance has not been degraded, with one exception, and I'll get to that. Customers report satisfactory service years after a competition, but the program has many problems.

The competitions take too long, an average of over

two years. It's disruptive. Permanent workers leave; they're either not replaced or replaced by temporary workers, and services degrade before they even decide the winner.

There are a large number of cancellations, about a quarter of the Department of Defense, often after the government and private bidders have incurred considerable expenses. Transition periods can be long and harmful, and there's a perceived bias in the process.

There are many ways and management solutions to the problems. First I would use centralized management teams to conduct the competitions. Centralized management teams bring in the expertise and independence that are needed to carry them out quickly and fairly.

They have to manage work force attrition, both before the announcement of the winner and after, during the transition. We are much better at requiring incumbent contractors to support a transition when they lose than when an in-house organization loses. We just let them walk away from it.

I would let the organization who conducts it keep a percentage of the savings based on how quickly they complete the competition, and I would require refresher training courses in ethics and procurement integrity for all participants. I would also establish clearer cancellation authority, provide more generous separation packages to the workers, and allow award fees for in-house teams if they win.

This is about the quality of the process. It's not about the quality of the workers. The bottom line is the program has improved efficiency in government, that it can be more generous to the workers. It can be more supportive to the government organizations conducting the competitions, and it can be fairer to the competitors.

MR. WALKER: Thank you, Mr. Kleinman.

Open it up for questions from the Panel, Bob.

MR. TOBIAS: I have a couple of questions for Mr. Kleinman, and then one for Mr. Hungate.

Mr. Kleinman, you say in your testimony that the competition process is too long and that the average time is two years. Does the two-year period that you identify here include the time from the announcement until the time of the completion, or is it from the time of the solicitation to the time of the completion?

MR. KLEINMAN: It's from the announcement.

MR. TOBIAS: It's from the announcement?

MR. KLEINMAN: Yes.

MR. TOBIAS: What would be the time period from the time of the solicitation to the time of decision?

MR. KLEINMAN: I don't know the answer. I don't know if we record it, so I don't know if we could get that. But clearly at the time of the announcement is when things start churning. Right?

MR. TOBIAS: Things start churning, right, but that period of time from the time the announcement until the time of the solicitation is when the performance of work is created. Correct? So the process -- that period of time has nothing to do with whether it's in house or not. That work has to be done. Correct?

MR. KLEINMAN: Yes, sir.

MR. TOBIAS: If you're going to have a competitive process even if you bypassed A-76, that piece of work has to be done. So wouldn't it be clearer to count the time from the time of the solicitation until the time of the completion when you're saying things take too long?

MR. KLEINMAN: You could count them separately. The issue is the time -- the total time is very disruptive and costly to the organizations, and that disruption starts the date of the announcement, and that's why I count from that point. You can start it later to figure out where to focus the attention on, but the day people start looking for jobs is before that.

MR. TOBIAS: Second, when you say there are few competitors, do you know how many of these situations have occurred where there have been no competitors?

MR. KLEINMAN: It is now very small.

MR. TOBIAS: It's very small?

MR. KLEINMAN: I could get that. It's certainly under 10 percent. It may be under 5 percent.

MR. TOBIAS: So there are only 5 percent of the competitions where there are no competitors?

MR. KLEINMAN: That's correct.

MR. TOBIAS: Mr. Hungate, you didn't say it in your oral statement but you did say in your written statement that, quote, there should be an effort to establish a clear standard where outsourcing and/or privatization, not public-private competition, is the outcome unless there is insufficient diversity in the private sector to deliver qualified bidders.

I take from that that you believe that we shouldn't encourage public-private competition but rather private-private competition. Is that correct?

MR. HUNGATE: I don't believe that the government and industry should be competing. Once the decision is made that it is not in a parallel government activity then it should be a private competition.

MR. TOBIAS: And why would that be so?

MR. HUNGATE: If the government has made the decision that it's not going to compete with industry then you go down a path to take things that industry can perform and move them outside of government. If the government has decided that it is going to compete with industry then you take a different path.

MR. TOBIAS: I see. So for you the issue isn't -- the issue is a philosophical issue as opposed to which issue -- which is going to deliver the best service at the least cost?

MR. HUNGATE: I think that is partly true.

MR. TOBIAS: Thank you.

MR. WALKER: Stan.

MR. SOLOWAY: Professor Martin, you mentioned in your testimony the idea of sequential versus parallel competitions. Could you just expand on that briefly and explain it?

MR. MARTIN: Essentially, the in-house department has an extended period of time in which to think about, to restructure, to reengineer the process as part of the competition, whereas the private sector has a finite amount of time to prepare and submit the bid. It seems to me that both parties ought to have the same amount of time.

MR. SOLOWAY: And just quickly how much time are we talking about?

MR. MARTIN: I have no idea, as long as it's equal.

MR. SOLOWAY: Mr. Kleinman, we've heard from this panel and previous panels, and I would suggest from every panel we've had in all the hearings, about the importance of accountability. In your recent study on A-76 one of the things that struck me was -- and I'll be very blunt -- that you were unable to get data on virtually all the MEOs you looked at. Is there -- what drove that? What's the problem internally that makes it impossible or made it impossible for you in your study to get adequate data to address the MEO?

MR. KLEINMAN: We don't keep good internal data --

cost data of how we do things in government, whether it's gone to a competition or not. This is just reflecting the overall problem. One of the issues we haven't even started is figuring out what's the cost of doing it now? The truth is, after an MEO wins we don't really track it and it's hard to figure out if over the life of the contract they have really kept to what they promised the government in their bid.

MR. SOLOWAY: Do we track the contractors differently?

MR. KLEINMAN: Yes. We don't do it centrally, but if you go to any facility the only people there tracking that can give you the data so you can reconstruct it, and that's how we did it in our report. There is someone watching.

I would argue that you should have some essential management of that so we can do better at passing around the information to each other on the costs.

MR. WALKER: Joe.

MR. SIKES: Professor Martin, one of the key themes of the panel here is that whatever process we use needs to have a level playing field. I was very interested by the checklist that you have created, and in looking at it appears to me that -- and also we hear from both sides--that the playing field is not level and there's different opinions on which way it's not level.

It appears to me that you've concluded it's tilted in favor of the public sector. Is that right? You had four that

were -- could you address that a little bit?

MR. MARTIN: I'm not sure that I would draw that conclusion. What I'm saying is that the process can be improved.

One of the criteria tends to fall towards the private sector. That is the cost comparison methodology. Does that offset the four more structural criteria that tend to favor the public sector? I don't know that my analysis or anybody else's is sophisticated enough at this point in time to make that kind of a statement, so I wouldn't want to say that the processes favor the public sector or favors the private sector.

I would just simply say that in terms of developing a competitively neutral process there is room for improvement.

MR. SIKES: The other question I have along those lines is one of your items is the minimum cost savings threshold.

It would appear that the process is set up because of the 10 percent rule to favor whatever the incumbent work force is, whether it's contract or in house, but you consider that to be neutral, wouldn't that be --

MR. MARTIN: I consider it to be neutral because as I understand it, it works both ways. It would work for moving the service --

MR. SIKES: Right.

MR. MARTIN: -- from the public sector to the private sector or vice versa, but your point's certainly well taken. And I would say again that this is not a definitive set of criteria or

definitive positions for all time, but I think it does provoke some thought and discussion and consideration.

MR. SIKES: Sure.

MR. KLEINMAN: Can I answer that? We've looked at the impact of the 10 percent. Empirically, this is not a big issue. I think the argument here is the perception of the fairness being mutual, but empirically only half are won in-house and only about 10 percent of that is decided by this 12 percent margin, so in the end you multiply -- you're talking about losing a percent or two of your total savings.

It's not a big issue, and it avoids making decisions that are truly on the margin. Maybe it should be 5 percent; maybe it should be less, but more to the point is where would you set it for the purpose of making it a fair system, making it fair to both parties. And that's important.

MR. SIKES: I had a question anyway for you, Sam, so I'll ask it, and that is that --

MR. KLEINMAN: I was hoping to avoid that.

MR. SIKES: -- that is that obviously CNA has studied this for a long time, long before I was involved in the program. What's the trend? Do you see -- are we getting any better at this? Clearly, we don't have a process that's making anybody happy right now. Are we even moving in the right direction, from your view, over time?

MR. KLEINMAN: The long-term trend going back to '78,

when we kicked it in, previously of new competitions completed showing increased savings. And how do we get there? I think in-house teams are more competitive than they used to be; they take it much more seriously. The competitions are larger than they used to be, and we know that increases savings. They're not very large; still they're a lot larger than they used to be.

So results seem to be in the right direction.

MR. WALKER: Mr. Kleinman, as you properly pointed out, the government doesn't have a very good track record of having a very effective activity-based cost systems, and DOD is probably worse than the government average--in fact is worse than the government average. You talked about the issue of savings, and you say that CNA has done work in analyzing savings.

I would be interested in what if any comments you would have if you broke savings down into two categories. The first category would be how much do the taxpayers save through going through the MEO process versus how much is saved through the competition that results after going through the MEO process, because it seems to me that one of the things we've been talking about is how can we encourage governmental entities across the board to become high-performing organizations, to become most efficient organizations?

And then Mr. Hungate, as you noted I think, we need to decide what should government be doing? First we have to say what are we trying to do? How should it be done, and then almost

the third question is who should do it? And so it seems to me that there are components of this cost savings that need to be analyzed, because one might draw different conclusions depending upon what the results of that analysis would be.

Have you done any work on that basis?

MR. KLEINMAN: Let me answer it kind of the way I heard the question, because I'm not certain I'm going to get to it. To the best of our ability when you ask what has been the cost of conducting a competition it's usually about -- it ranges up to about 10 percent of the annual cost of the activity.

When you think about it, that's a lot. If there are 100 people in an activity it means it took you ten man years to conduct a competition, and that sounds like an enormous amount, but that seems to be about -- so it is costly. But the competition of savings to the government are about 30 percent, which means four months into the first year of competition you've gotten back the cost of the competition.

MR. WALKER: Can I stop you just for a second though?

MR. KLEINMAN: Yes, sir.

MR. WALKER: Does that 10 percent cost include just hard dollar costs or does it also include soft dollar costs? In other words, all the time of federal workers that are spent on working on these issues?

MR. KLEINMAN: It includes the time. In fact, I would say --

MR. WALKER: It includes both?

MR. KLEINMAN: Yes, sir. In fact, until the '90s I think most competitions were using in-house labor support to run the competitions.

MR. WALKER: But part of the issue is a follow up to the comment too on the savings. My understanding is a lot of the savings, this quote- unquote 20 to 30 percent, is a result of adopting either directly through maintaining the work in house as an MEO, or indirectly through contracting out, and having the contractor do it is achieving some of the efficiencies associated from moving from how business is done today to how it should be done from the standpoint of economy, efficiency, and effectiveness.

And so that's the angle that I'm -- and you may not be able to answer this today, and I understand that.

MR. KLEINMAN: I know the Navy now has an approach of trying to gain those efficiencies without competition, and I think all the military services had something comparable called efficiency reviews, internal efficiency reviews. Now, those internally, my recollection, saved only about 5 percent. They were not big savers.

And the problem here is the forcing function. To be perfectly honest, it's all about the process and the process that forces people to realign the work would be because they risk losing it, and that really is what's going on, and the forcing

function of making them to really restructure and redesign it seems to produce bigger savings.

MR. WALKER: Stan.

MR. SOLOWAY: I have one question for Ms. Fiorino. Your first point you raised had to do with the solicitation process. That's the first we've talked about it at this Panel. I've been through--when I was in government and since--a number of cases where there were significant questions about a solicitation, not necessarily in terms of legal or illegal, but whether they were going to get to the outcome they looked for; what I perceive to be resistance on the part of some companies to raise a red flag at that time because they're looking to establish customer relations.

Is that the point you were talking about and could you explain a little more what you've seen in your practice?

MS. FIORINO: Yes. That's precisely the point is a reluctance during the solicitation phase to raise what contractors feel are inherent unfairness in the solicitation.

MR. SOLOWAY: Could you give us a couple of examples?

MS. FIORINO: One example I recall is a solicitation that had -- I don't recall the number of particular performance items required and discussed in the proposal, and if you missed discussing any one of those you would be rejected as technically unacceptable. That's a tall order to fill. It's a no-mistake type approach. No inadvertent omission can be tolerated, and

that's oppressive to the contractor.

MR. SOLOWAY: Does that same rule apply to the MEO in most cases? In other words, if they miss are they --

MS. FIORINO: We did not get that far in that process to learn that.

MR. SOLOWAY: One of the solicitations that -- I don't know if you're familiar with them, but I've heard of a couple of cases recently where large work packages were broken down. In one case, one piece would be set aside for small business competition, the other piece for open competition -- a full and open competition. But then in the evaluation process they were folded back together, so you had essentially two separate, completely distinct private sector winners competing against one MEO.

Have you seen that at all in any of your work?

MS. FIORINO: I have not.

MR. SOLOWAY: Sam or anybody else?

MR. KLEINMAN: Lackland had two that they brought back in the end to compete against the MEO. I believe the one that's still outstanding had two separate bidders and then they were competing against the one MEO.

MR. SOLOWAY: Do you know what the rationale was to do that?

MR. KLEINMAN: It was a small business --

MR. SOLOWAY: No. I just mean the breaking up of the

work package. Does that make sense.

MR. KLEINMAN: You mean having only one MEO?

MR. SOLOWAY: And one collective --

MR. KLEINMAN: I don't know the answer.

MS. FIORINO: One way -- may I interject something?

One way to possibly address that would be for both the MEO and the private sector to have similar subcontracting goals so that you wouldn't have this separate two-part competition.

MR. WALKER: Frank.

MR. CAMM: Professor Martin, as one of the places where you see some lack of a level playing field, you talk about in the cross-comparison approach that fully allocated costs are inappropriate in this approach. Could you say more about that? What are you after there?

MR. MARTIN: OMB Circular A-76 has changed over time from basing the in-house cost estimate on avoidable costs to basing it on fully allocated costs. I don't know again of any managerial accounting text that suggests that in alternative choice situations you ought to use fully allocated costs. I think the issue really is that fully allocated costs may very well overstate the cost of in-house service delivery and avoidable costs may actually understate it.

A solution to this dilemma has been proposed by the Texas Competition Council. That is you divide the in-house costs into three segments: direct costs, avoidable costs, and

unavoidable costs. The cost of the in-house bid is fully allocated cost. The cost of the contractor's bid is the contractor's cost plus the government's unavoidable costs. If the costs are in fact unavoidable they're unavoidable irrespective of whether service delivery is in house or private sector. I think that's a nice twist, a nice solution to a problem.

MR. CAMM: So you're suggesting that A-76 might be brought into line with that thinking by adding the unavoidable costs on to the contractor's offer?

MR. MARTIN: I think that's something that should be seriously considered. Yes.

MR. CAMM: Okay. When you've looked around at other places that are conducting these sorts of competitions have you seen other competition approaches that more nearly give you a level playing field than A-76? Have you seen places we should look at for ideas?

MR. MARTIN: Actually, when it comes to state and local governments most of those tend to use avoidable costs. The UK approach is a real long definition, which I think is the same thing as net avoidable costs. The only group that I have seen propose -- and it's only a proposal to solve this dilemma -- is the Texas Competition Council. I don't know whether it's actually been implemented anywhere in Texas or not. But again, I think it's a nice solution that's worth considering.

MR. CAMM: When we look across the board at all the

13 factors you looked at, are there places we should go look for ideas on how to get closer to a level playing field? Are there examples of how to do that that are working out there in practice today?

MR. MARTIN: I think the committee should seriously look at the UK experience, the United Kingdom, reports by the audit commission. You should look at the practices of the Commonwealth of Australia, both the federal government, some selected state governments, the City of Melbourne, and others, which have tried to deal with these same issues and have some unique perspectives to bring to the issues.

MR. CAMM: Okay. Thank you.

Sam, you mentioned in here that it would be appropriate to get more central capability to conduct these studies and conduct these competitions. Could you say more about that and what benefit you think would come from that?

MR. KLEINMAN: Of course, in the military a lot of the work is done at the installation level, and most of the people have limited experience of having conducted these competitions, and also they have ties to the organization that's being examined.

So the point is -- and I think the Air Force actually does it in some of its commands -- to draw back and have sort of tiger teams come in and as soon as you announce the start of the process. They will be bringing contracting experts, experts in setting up the competition: people who will be dealing with HR

issues, public affairs type issues, and just take over and make sure it's a smooth and fair process.

They would still have to work with the local people in developing PWSs and things like that, but they would bring that independence and objectivity to it.

MR. CAMM: So you've seen this experience in the Air Force tiger teams. Have you seen it elsewhere in the government anywhere?

MR. KLEINMAN: No. You don't see it very often.

MR. CAMM: But if -- your experience is that where this has been applied it has gotten -- and some of these other points you raise as well, that when you have the centralized management things go faster? You have fewer ethics problems?

MR. KLEINMAN: I actually don't know the answer to the last part. I would suspect it, but I haven't checked into it.

MR. CAMM: Presumably, we could go look at that and see if --

MR. KLEINMAN: Right. Absolutely.

MR. CAMM: Right. Okay. Thank you.

MR. WALKER: Any other questions? Bobby?

MR. HARNAGE: Yes. Mr. Martin, I understand that everybody wants a level playing field, and my solution to that is to let me design it. Everybody individually can design a level playing field, but collectively it's extremely difficult.

I noticed in your costing issues two things that

concern me are the mandated private sector wage scales and that these favor the public sector. Can you explain that?

MR. MARTIN: Yes. And I thought that might be an issue that would get raised. A-76 doesn't directly mandate private sector wage scales and employee fringe benefits, but other federal legislation does, so I took it out of my analysis of A-76 as such.

But when government mandates -- any government mandates--the private sector pay, a particular wage or benefit package to employees working under government contract, what it does is it makes, in my opinion, the in-house bid more attractive by making the private sector bid less attractive. Now, I've taken a lot of heat from my own colleagues by suggesting this, because they said there's all kinds of issues. There's social justice issues, there's wage issues. I certainly understand that and certainly appreciate that, but it seems to me that they're in conflict with the notion of the level playing field. You have a conflict between competing public policy goals, and I'm not suggesting which one should take priority. I'm simply saying they compete.

MR. HARNAGE: Okay. And [second], on your mandated private sector employee benefits, would the answer be the same?

MR. MARTIN: The same answer. The reason that I treated them separately is I've actually found instances where wage scales are mandated by some governments but not employee

benefit packages, and other employee benefit packages are mandated for the contractor, but not salaries and wages.

MR. HARNAGE: What are those mandates? If it's not A-76 what are those?

MR. MARTIN: Mostly state and local governments.

MR. HARNAGE: So it's not necessarily the federal sector, the A-76 --

MR. MARTIN: No, sir.

MR. HARNAGE: There is no A-76 that I know of in the non-federal public sector.

MR. MARTIN: Yes, sir.

MR. HARNAGE: So this would naturally apply to the federal sector then?

MR. MARTIN: The level playing field checklist is something that was designed as a template to be overlaid over any public-private competition policy. I've done that for A-76 specifically, and somewhere in your materials there should be an analysis, but the level playing field checklist itself is not A-76 specific.

MR. HARNAGE: But I'm trying to find out if that mandated private sector wage as a mandated private sector benefit is something that you found in state and local governments, not in the federal sector.

MR. MARTIN: It's my understanding. It's not addressed specifically in A-76. I have found that in public-

private competitions conducted by state and local governments, they have mandated that their contractors as part of the competition policy pay either living wages if you want to use that term, and/or fringe benefit packages --

MR. HARNAGE: Would it be the Service Contract Act maybe that applies here?

MR. MARTIN: For A-76 I would assume so. Yes.

MR. HARNAGE: Now, do you know how many -- what is the percentage of the application of the Government Service Contract Act? Do you know that it's just a little over 30 percent that actually applies to the federal sector?

MR. MARTIN: No, sir. I have no working knowledge of that.

MR. HARNAGE: Of course, 70 percent it doesn't. I'm just concerned how does that favor the public sector? In fact, in application I think you would find it's probably somewhere around 20 percent actual application of the Service Contract Act to those jobs being studied for privatization. I'm just wondering how this 30 percent and 20 percent versus 70 percent and 80 percent equates to favorable public sector.

MR. MARTIN: I am a bit confused at this.

MR. HARNAGE: Okay.

MR. MARTIN: At this point.

MR. HARNAGE: Well, maybe you want to do a little more research on that.

MR. MARTIN: Yes, sir.

MR. WALKER: I'd like to follow up on this.

Professor Martin, a couple of things, one just to confirm my understanding.

The interchange that you had with Mr. Camm where you were describing something with regard to this Texas approach, is that the approach that you're referring to in your document here where you talk about the State of Texas approach and cost comparison is something you think we ought to think about?

MR. MARTIN: Yes, sir.

MR. WALKER: Thank you. Secondly, with regard to this issue of pay, what I would infer -- and correct me if I'm wrong -- what I would infer from your comment is a presumption that if either the federal or the state and local governments mandate that you have to apply the same level of wages and benefits if they are successful in winning the competition, what I infer from that is that you're saying that that would be paying them more than otherwise the contractors would be paying them if they were doing it based on current market forces?

That's what I infer from your comment by saying that it's not a level playing field. In other words, to the extent that it applies -- as Bobby said it may only apply 20 or 30 percent of the time at the federal level, but what I infer is your saying that the federal workers are paid more than they would be in the private sector. Am I hearing that right?

MR. MARTIN: I'm obviously doing a very bad job of explaining myself. No. My principle here is a very simple one. When you take away discretion from the private sector over its -- over the wages and fringe benefits that it pays its employees under a contract, I believe that you make the public sector more competitive in that process because the wage scales I believe are raised in the private sector.

MR. WALKER: That would lead me to believe that they would therefore -- you're decreasing flexibility, which I think is a fact. You can't debate that. That's factual. But secondly, whether or not that decreased flexibility results in higher average compensation costs, I guess, is debatable.

MR. MARTIN: Yes, sir.

MR. WALKER: It depends upon the skills and knowledge and performance and productivity of the workers in the work forces. Okay. I think I understand.

Any other questions?

(No response.)

MR. WALKER: I want to thank all of you, and would now like to move to the next panel. We now have representatives for each of three of the major services. I will note the Marine Corps is not represented, but that's okay. The Air Force, the Army, and the Navy.

MR. SIKES: There is a Marine Corps representative.

MR. WALKER: Is there a Marine Corps?

MR. SIKES: Yes. Jerry Stark.

MR. WALKER: There you go, Jerry. We wouldn't want to leave the Corps out. But Brigadier General Stein is going to go first. He's representing the Air Force. Mr. Wakefield then will go for the Army, and then the Navy has a number of representatives, including Captain Schaefer, who will be their lead-off witness.

Gentlemen, what I would ask is that if you could try to limit your oral comments to no more than ten minutes. If you could try to do that because we want to be able to have plenty of time for Q&A. When I say ten minutes, ten minutes for each service rather than for each person.

General Stein, pleased to have you with us, all of you, and we look forward to hearing what you have to say.

GENERAL STEIN: Mr. Chairman, members of the Panel, first I'd like to start off that I'm Brigadier General Joe Stein, Director of Manpower and Organization for the Air Force, and I want to begin with a thank you for the opportunity to address the Panel today.

What I'd like to do is use a slide presentation off to the left to encapsulate a few thoughts here. To address the Panel here, what I'd like to start off with is to give you a glimpse of the Air Force program and some of the issues that we're dealing with; show you perhaps a strategy that we use as an overriding concern for how we address this program.

The point of the first slide here is to address to you that A-76 fits within an overall method of efficiency for the Air Force that we term strategic sourcing. I think I don't have to emphasize to this Panel that there are a lot of pulls and tugs on that and a lot of areas that are affected by it, not the least of which is our war-fighting capability and the efficiencies that we have within the service itself.

In terms of the Air Force, this umbrella gives you a perspective of what we include in strategic sourcing. Certainly traditional A-76, and I think you can see that the functions that we have and the perks that we've used range from small single function activities like the food service operation depicted there all the way up to large base operating support functions such as Offutt Air Force Base, which is being worked right now.

We also are looking for efficiencies through reengineering, areas that can be and may not be touched by A-76 by current restrictions: depot competitions and all the way out to things like direct privatization, including 402 new housing units at Dyess, which I had the pleasure to be the commander for just until about nine months ago. Again, a way of getting efficiencies overall, for our Air Force.

In terms of where we've been I think it's important to emphasize during this ten-year timeframe just depicted up here we've done an awful lot in the Air Force. We break this down on the pie chart into various categories, but you see roughly 92,000

positions during that ten-year span. And I'd remind the Panel that our experience with A-76 actually dates back to 1978, and there's much more that goes beyond that point.

It's important as we use numbers to consider which timeframe we're looking at and again, what activities you're including --

MR. WALKER: But a lot of those are planned, right, General, because it goes to '07?

GENERAL STEIN: That's right. They include planned activities through '07 and they include activities that have been completed through as far back as 1997. But a lot going on today in our Air Force.

What I'd like to do is pull that down to tell you what we have in the program today. This very quick summary here gives you a snapshot both of cost comparisons, direct conversions.

Some points of interest here that you might see, and that is as you look down to the bottom line here, the cost comparison average size today is 283 positions, which is quite a bit larger than what we have had in the past as we started this program.

Certainly, people would recognize--and I think everyone would agree--I should go to larger studies. There is much greater potential for savings there, but I think also everyone would nod their head and agree that once you do that the complexity and the difficulty of getting there is exponentially greater. So those are some of the things we've been looking at.

This is what we find today as the environment for A-76. We've had a lot of hard work by both sides as we worked the multifunction activities. I think we see both sides perceiving there's an awful lot at stake involved here, and certainly we can understand that. Also, I think it's a testament to the individuals involved on both sides that are competing here of the work that's put in and how much they've refined their bids, because we find as we get down to the actual comparisons, the cost differentials have become very narrow. That gives us the potential for--as things are looked at on appeal--to swing one way or the other based on that very narrow differential.

Again, a lot is at stake. A lot that people are looking at today, and we're working our way through that.

What I'd like to do is give you a look throughout history at what we have done in the Air Force, and I think if you look through this you'll see that the cost comparisons have gone back to 1978, and overall we have done an awful lot to date.

We have also done, I believe, as a whole in the Air Force a very good job, those that have started this program at its inception, and surely I haven't heard one case of where someone has intended to do something that was less than the best for the government and all the people involved here, too. So a tremendous amount of success overall, an awful lot in work today.

Savings is an issue everyone looks for. This includes savings from a number of different areas there, not only

A-76, reengineering depots, and it's actually projecting those savings through '07. The art of this is to look at what period you're talking about, what's defined in it, et cetera, and that's the projection we have.

Certainly, everyone has acknowledged that the impetus for this is not only getting efficiencies and doing the job better for the American taxpayer and for the Air Force and Department of Defense, but also to take some much-needed savings and channel those into other much-needed areas, including modernization for our Air Force and Department of Defense as we go along.

I would mention to you that although there are times -- again, it is very difficult to get precision with each and every study--that there have been a variety of organizations that have gone through and looked at this and confirmed that savings are real and sustained over time.

Additional benefit for us that we find today is to use this as a foreshaping tool to be able to redirect some of our blue-suit manpower from perhaps four support areas into direct mission capability and to help us meet those tasks and fill some of those positions that we sorely need folks in today, to get a wide range of benefits from the program.

In terms of what we had done I mentioned to you I think with time we have -- over time we have done a very good job as the Air Force as a whole. I would say still you're always going to have the opportunity for improvement. Each and every

time you do one of these things something new comes up, and as with any other study, we're trying to fold back in those opportunities into our program here today. That ranges all the way up to the Secretary of the Air Force having commissioned a tiger team to review and come up with methods on how we can improve studies. That includes additional emphasis on investment and training for all participants, all members throughout the study process, cross-functional reviews including support in that area, all the way through standardized appeal levels and things like that.

But there is an awful lot of focus and emphasis that's reaching down from the very top levels of the Air Force-- all the way down to the individual units that are performing this.

What I would pass on to you and what I wanted to work through with you; to give you a sense of how much detail is looked at in the way we structure a program is the strategy, and I think it's awful important that we all have a strategy for how we're going to achieve these efficiencies for our government.

First and foremost, I think it's important to remember that the Department of Defense and the military services have a fundamentally different job and profession than many other businesses, and we're responsible to respond in wartime for crisis across the spectrum of conflict and be ready today to do that, and we cannot accept less than that. The American taxpayer cannot do that. We need to make sure that our wartime commitments are taken

care of.

Likewise, there are things like overseas to continental United States rotations that are important to us as well. I think each and every member of the Panel is aware of the fact that there's an awful lot of focus on retention in the armed services today. There's an awful lot of cost involved with retraining new people coming in.

If I were to sit here and take away particular wartime specialties in all the continental United States bases, and the only place that you would be left to be stationed at is some of those functions might be Greenland or Turkey, I think you could imagine that we would probably end up with very big losses in other areas in terms of retention, recruiting costs, and things like that. So, we feel there are certain standards we need to use in our strategy to make sure that we again save the American taxpayer money overall while we perform our mission.

Other things in here include -- that one might touch a little bit on actual versus artificial cost. Just as you run a business in the private sector you're looking at the bottom line with all factors considered, not just one subfactor, that's one thing we're trying to do with our operation here, to make sure that those economies actually do bring us benefits.

Retention, shaping the work force -- what I'd like to give you as an example with some of the ways we've done things. I'm going to use the civil engineering field as an example.

That's an area that we have real time wartime commitments where we deploy people overseas in response to contingencies. It's happened in the Gulf and other areas.

During peacetime, we still need those people. We want to use those in peace time tasks to keep the proficiency up and also to cut the cost of operations, so what we've done in the Air Force is to try to take a bigger percentage of that blue suit work force, position them in the major commands, our air combat command and air mobility command, that are more directly aligned with deploying to leave a small civil service work force inside there, so when those blue-suiters deploy forward the base stays open and operates. Then in other commands, take a look at outsourcing those functions so that we can achieve the efficiencies that way.

The intent is again, what's the right way to get maximum efficiencies at the same time keeping the war time mission taken care of, and I'll give you a little more information as we go.

Finally, the thing I want to emphasize with you is we have had tremendous senior leader involvement looking at opportunities, our career field development, and the way we position forces and chances for outsourcing, and the next slide will show you one example. And I'd like to -- this is a little complicated but I want to leave you with just some thoughts versus the specific numbers, per se.

In this field here you have a look at our civil engineering career field. One, it is an example for outsourcing in certain areas there. On the left bar chart you see funded authorizations today on our books. Broken down with the blue is active duty military, and then the other categories go up a total force look, including our contractor work force. As you go throughout there we have models that have gone out and looked at it, to major theater war conflict, and what force would be required to do that?

One of the things you see from here in this particular field is the fact that we have more requirements in terms of blue suit and overall force than we do have today in inventory. Likewise, for the things we looked at like the AEF library -- stands for our Aerospace Expeditionary Force libraries, folks that are postured today to deploy around the world and have that commitment, that war time prevention tasking today.

The average the numbers that I last saw were about 13,000 people per day deployed around the world from the Air Force. That's quite a factor, and that's something that we must consider as we work through this.

When I worked the retention issue again I mentioned overseas rotation in this. What we use is a two-to-one minimum, saying you should have the opportunity for two bases in the continental United States versus one overseas to give you a favorable retention basis and rotation for our force. We look at

that not only in the aggregate but specific fields like power production, et cetera, to make sure everyone is taken care of.

So it is a pretty wide range. Far right column is wing level; how many are actually out there doing that specific job. The Chief of Staff and each deputy that he has has gone through and looked at every career field in the Air Force, a tremendous amount of time. During that process one of the questions asked is "what's the opportunity for additional competitive sourcing, outsourcing, or privatization as we go along again to do the right thing?"

What I would throw out for consideration by the Panel are two suggestions on this slide. I would submit to you that overall what we're looking for is efficiency within the Department of the Air Force, and certainly within the government as a whole.

I would, for your consideration, submit that it is worthwhile to look at crediting the results of all tools, not just one specific tool in that area of efficiency. Likewise, as we look at overall goals for competition, again, I factor in a number of things and make sure that as we generalize we don't exclude wartime resources.

A simple for instance, in the FAIR Act inventory for the Air Force, the most recent one that comes out, roughly 30,000 dual status guard reserve war fighting forces are included in that. Day to day work of civilians, but they meet our wartime taskings. We feel that that's inappropriate to include those as

members for A-76 competition.

Artificial economies -- again, the thoughts I would give you are, if we go out there and if we cut down that rotation index basis and we end up losing people for retention, you probably pay a far greater price to come back and regrow that new capability as a whole.

An additional thing: we mentioned mission. Today we have the potential for strikes for the contractor's work force to take place to be an authorized delay, yet at that point that can impact mission today and impact mission in the future. Preparedness should well be there.

I would submit that the Panel ought to address some way to address that capability and find a way that we can keep the mission going at the same time that we are resolving the labor difficulties that are going on at that period.

And finally, everyone has seemed to agree to leveling not only appeals process but others. I think as Mr. Harnage pointed out a few minutes ago the devil's in the details and how you level. My comment would be that right now we have an awful long time period that we go through, one that is not advantageous to the work force because we certainly put people through a long time with the process of constant appeals, almost expected because of the stakes involved.

It's certainly not advantageous to industry with all the venture capital that is tied up for extended periods, and it's

not advantageous for the mission of the individual services. If we could address that thought, it would be how can we consolidate versus growing the time associated with that process.

Mr. Chairman, members, thank you for the time to address the Panel, and I'm available for questions.

MR. WALKER: Thank you, General. You get the host extra time allocation, which is only appropriate, I guess.

Mr. Wakefield, why don't you please proceed? Thank you.

MR. WAKEFIELD: Thank you, sir.

Good morning. I'm honored to have been given the opportunity to present my views on improving the OMB Circular A-76 cost comparison process to this distinguished Panel. I've worked in the Army's A-76 policy office since 1987, and I'll add in reference to a question that Mr. Walker asked a couple of times and Mr. Tobias once, that from '84 to '87, I worked in the Army Material Commands running their new DOD efficiency review program, and I was hired at the Pentagon in 1987 to run the Army's efficiency review program, and I did that for a couple of years until its demise as a cost-cutting measure.

Please don't expect me to provide any silver bullets that would cause you to slap your foreheads and shout, "Of course!" I don't have any such silver bullets. I would maintain that the A-76 process is no more complex and in need of reform than most other processes used by large organizations. The reason

A-76 studies are problematic is that the studies often result in employees losing their jobs.

Let me say it again. The A-76 process is problematic because people lost their jobs. That fact ups the ante and causes the process to receive much more criticism than other processes that are equally complex. Comparable errors that occur in other processes do not receive as much attention because those other processes do not have the effects on people that A-76 does.

The reason A-76 is the most powerful tool for achieving efficiencies in savings is its foundation in competition with the private sector. When commercial activities are outsourced as a result of the competitions the in-house jobs go away, so there is just no way to eliminate the prospect of losing jobs without reducing the resulting savings.

And by the way, the number of people who are involuntarily separated is much lower than is commonly believed. Most people land on their feet.

Also it's important to recognize that part of the process is governed by the Federal Acquisition Regulation and part by OMB Circular A-76. Generally, the FAR covers the solicitation and the source selection. A-76 covers the in-house offer and cost comparison. To the extent that the A-76 process is difficult and error prone, I believe that most of those difficulties and errors take place within the FAR part, not the A-76 part.

If you're going to compete or outsource you have to

prepare a contract solicitation. Now, I'm not a procurement analyst, and I'm not saying that you need to fix the FAR. I'm just saying to the extent that you're only fixing OMB Circular A-76, you're only fixing a small part of the process.

So how can the A-76 process be improved? In 1996, as part of DOD's launching of its current wave of A-76 studies, the Defense Science Board published its review of the A-76 process. Despite an extensive effort pulling together government and private industry experts, that report did not include a single proposed change to the A-76 process.

Also, ever since the A-76 supplemental handbook was published revised in 1996 as I have been involved in resolving all the A-76 questions that surfaced to my level, I cannot recall any that prompted a suggestion to change the A-76 process. If there had been, I would have raised them to OSD and OMB. And don't get me wrong. I'm not saying that improvements are impossible, and I sincerely hope that this Panel will improve the process. I'm just saying good luck.

(General laughter.)

MR. WALKER: We'll take all the luck we can get, Mr. Wakefield.

MR. WAKEFIELD: As I mentioned before, the A-76 process is problematic because people lost their jobs, and that fact causes many involved in the process to slow roll the process. The solicitation for contract offers and the in-house offer, the

PWS and the MEO, are lengthy, complicated documents, and there are many opportunities for people at the installation to delay their development. Unfortunately, delays leave affected employees uncertain of their future for longer periods of time, and this exacerbates the declines in morale and productivity during the study.

The fix for slow rolling is for commanders and leaders at all levels to constantly indicate their support and commitment to the process. We should encourage such commitment, but it's not a process change that we can legislate.

One part of the A-76 process that is particularly troublesome is adjusting the in-house offer to match the increased performance of the selected contract offer. This applies when the cost technical tradeoff procedure, often referred to as best value, is used to select the contract offer that will compete against the in-house offer. I remember when I prepared the Army's comments on the draft version of the 1996 revision of the A-76 supplemental handbook, in which this MEO leveling requirement first appeared, I wrote -- and it appeared in the Army's comments -- that the procedure could be a disaster and should be tested before being required.

Well, it was made mandatory, and while disaster might not be the appropriate term the procedure has been the subject of several GAO bid protest decisions. For over two years now I've been intimately involved in developing the DOD guidance for the

procedure, and I believe the guidance will help in conducting this difficult procedure. After the DOD guidance is used for several studies, OMB will probably want to incorporate portions of it in the A-76 handbook.

When I was asked to give this presentation, I sent an e-mail to the A-76 people in our major commands for ideas. I only received a few responses, but two of them mentioned the idea of what I'll call a one-step cost competition. You've heard this idea earlier this morning. This proposal, which has been making the rounds recently, would include the in-house offer in the source selection process that selects the contract offer.

Instead of having the source selection process choose the contract offer that will compete with the in-house offer at a later cost comparison a one-step cost comparison would have the in-house offer evaluated along with the contractor offers during source selection. The result of this one-step process would then be the tentative in-house or contract decision, and presumably appeals and protests would work the same way they do now to determine the final decision. This one-step cost comparison has some appeal.

Now, for sealed bid and low cost technically acceptable source selections, the process would be about the same so it wouldn't matter much. The appeal of this one-step cost comparison is for the cost-technical trade off source selections, because it would eliminate the MEO leveling step procedure that I

mentioned before. However, the single downside is that it would make the in-house or contract decision subjective. How well such subjective decision would hold before the media and Congressional inquiries is uncertain.

If this idea is determined to be pursued I would strongly recommend that it be tested before it be introduced and mandated.

One final suggestion on the legislative front. I'm assuming that the Panel's charter includes reviewing all of the other restrictions on outsourcing such as firefighters and guards, so I won't cover that. There's one law that I would like to see stopped. The reason I use the word 'stopped' is that it is a provision that has appeared in each year's DOD appropriations act since about the mid-80s. In the FY '01 act it's Section 8014.

Once I was told that each year DOD leaves it out of the version that they send to Congress and in each year's law there it is again. The provision states that a DOD activity performed by more than ten civilian employees may not be converted to contractor performance until a most efficient and cost effective organization analysis is completed and certified to Congress.

Now, there already is a statute in USC 2461 that requires cost comparisons for DOD activities with more than 50 civilian employees, so the problem with this appropriations act provision is that it restricts direct conversions of activities

between eleven and 50 civilian employees in cases where the OMB Circular A-76 would permit it.

For example, the A-76 handbook permits direct conversions where all permanent civilian employees are placed in comparable jobs or when an activity is outsourced to a qualified small or disadvantaged business, but because of the appropriations act provision DOD can't do such direct conversions, and it also complicates streamline cost comparisons.

I see the red light flashing, but I believe I have a few minutes left, or I'd like to add some comments on what I talked about before regarding support from commanders and leaders at all levels as an antidote for slow rolling the process.

A very senior Army official recently said, "asking the garrison to do an A-76 study is like giving a pig a knife and asking it to make pork chops." That's the challenge. Over the years I've personally observed a direct correlation between commanders' expressions of support and successful competitions. This is particularly true at the Army major command level.

When the four-star or three-star MAJCOM Commander expresses interest in how A-76 studies are progressing during each installation visit and otherwise at every opportunity periodically indicates a desire that the studies be expedited and conducted well, I have observed that that MAJCOM studies go faster and have fewer problems.

This communication of support happens informally, not

in writing. This communication happens or can happen whenever commanders meet, either one on one or in group meetings, and it flows down all the way from the top of the agency all the way to the hands-on worker.

Now, this administration is committed to competition.

I had the pleasure of listening to OMB Director Mitch Daniels speak very persuasively on the subject, and the entire speech was devoted to one subject, A-76. Now, one would think that with this administration's emphasis on competition, such support would be communicated down the tape. I think what is happening is there simply hasn't been enough time since January 20 for that to happen. When it does, when it finally flows down, I am hopeful that will cause DOD commanders to express support and that that will speed the process at all installations.

Again, it is the delays in completing studies that causes declines in morale and productivity, and that in turn causes other problems.

That concludes my presentation. My message is mainly that the process is okay, but it's the controversy caused by the fact that it eliminates jobs that causes most of the problems, and there's not much to be done about that. I'll be pleased to respond to any questions you have, either at this presentation or at a later date.

Thank you.

MR. WALKER: Thank you, Mr. Wakefield.

Captain Schaefer, I don't know how you are going to divide this up, but I'll let you do the lead-off here.

CAPTAIN SCHAEFER: Naval forces are very flexible, so we'll respond accordingly.

Good morning, Mr. Chair, and members of the Panel. Thank you for the opportunity to appear before you today. My name is Captain Tom Schaefer. I'm here today representing the Office of the Deputy Undersecretary of the Navy.

The Deputy Undersecretary of the Navy has overall responsibility for program direction and oversight of the Department of the Navy's strategic and competitive sourcing program. He reports directly to the Undersecretary of the Navy for these programs.

With me today are Mr. Frank Sowa from the Navy's Office of Strategic and Competitive Sourcing -- he works for the Chief of Naval Operations -- and Mr. Jerry Stark from the United States Marine Corps Office of Installation Reform, so they are counterparts that run the day-to-day programs for the Department of the Navy.

These two gentlemen have extensive experience in the operational and technical aspects of how the Department of the Navy runs its strategic and competitive sourcing program. They are most familiar with the strengths and the weaknesses of the current program as well as the legal and administrative framework within which these programs must operate.

But since today's focus of the hearing is on the current processes used to manage the competition of commercial activities within the federal government, my comments are going to focus on the Department of the Navy's policies and strategies that govern how Mr. Sowa and Mr. Stark execute their respective programs. Following my comments, they will address the specifics of their respective programs and give them a summary status of their program's results to date.

In the overall context the Department of the Navy is constrained by budgetary shortfalls, a continued high tempo of operations around the world, and a very critical need to make large investments in modernization of equipment and recapitalization. Since the 1997 Quadrennial Defense Review, the Department of the Navy has been pursuing innovative initiatives to reduce infrastructure and support costs. Savings generated by these actions is reprogrammed to other high priority needs.

A key component of this is the Infrastructure Reform Initiative and part of that is the competitive sourcing program used in the process for competing commercial activities outlined in the OMB Circular A-76.

Beginning in 1998, the Department of the Navy began pursuing a plan to generate savings specifically for modernization and recapitalization. The Department set a projected savings goal of approximately \$5 billion over the period fiscal year 1997 to 2005.

In 1999 it became clear that competitive sourcing alone would not achieve these necessary savings, nor would it result in the most efficient Navy and Marine Corps infrastructure.

It was determined at that time that a broader more systematic approach consistent with the intent of the OMB A-76 Circular and revised supplemental handbook was needed to achieve our organizational goals. Within the Department of the, Navy this approach is termed strategic sourcing, very similar to what General Stein described for the United States Air Force.

Strategic sourcing is our overarching program for implementing infrastructure reform to achieve savings, streamline operations, and improve efficiencies at our bases and shore facilities.

Last week in Indianapolis, the Panel heard from the Naval Surface Warfare Center, Crane, Indiana, in some detail of how strategic sourcing has been operationalized at a major support facility. As highlighted in the Crane presentation, strategic sourcing at its core begins by reviewing an entire organization's functions through an evaluative process to determine how related functions should best be organized, aligned, or in some cases eliminated to achieve maximum operational efficiency and effectiveness.

Tools in this strategic sourcing toolbox include A-76 cost comparison studies. It also includes privatization, divestiture, sale of surplus assets, business process

reengineering, adopting many private sector best business practices, consolidations, make or buy decisions, cooperative agreements with other services and other government entities.

Over the last several years, it has also been particularly challenging while doing this to integrate these efforts in a downsizing environment with other department-wide initiatives, including the completion of BRAC base closures and the development of enterprise resource planning, ERP, systems to link information flows and databases across large and widely distributed business units such as the Naval Sea Systems Command and the Chief of Naval Education and Training.

As the Department of the Navy moves ahead with continued emphasis on infrastructure reform, future efforts will further decline the strategic sourcing approach with greater emphasis on more integration and alignment with high-impact investments such as ERP and improved data collection and analysis through the implementation of more sophisticated accounting practices such as activity based costing and activity based management.

The Department of the Navy is confident that the strategic sourcing approach is the best long-term strategy because it is an approach that integrates a number of initiatives being pursued to reengineer the way the Department does business. Performing cost comparison studies of functions that are commercial in nature is but one method to consider outsourcing

work performance by private contractors. A-76 competitions are but one of several processes being utilized throughout the Department of the Navy to achieve the desired outcomes under this program.

As outlined in the OMB A-76 Circular, the revised supplemental handbook, quote, "the reinvention process must consider a wide range of options to make the government more businesslike." What is important about the Department of the Navy strategic sourcing approach is that it looks at whole functions to determine how best to restructure or realign the work that needs to be done, what can be eliminated, and the best source, public or private, to accomplish the work.

Mr. Frank Sowa, Strategic and Competitive Source and Program Manager for the Navy will follow me and we'll be happy to answer your questions. Thank you.

MR. WALKER: Thank you, Captain.

Mr. Sowa.

MR. SOWA: Mr. Chairman and members of the Panel, I'd like to thank you for this opportunity to discuss the Navy's strategic sourcing program and its components.

The Navy has determined that a broader systems engineering approach would be pursued to achieve maximum benefit and prevent sub-optimization commercial infrastructure. This initiative is called strategic sourcing.

The strategic sourcing approach incorporates existing

DOD manpower management processes that provide for a complete functional organizational assessment of functions and activities that are both commercial and inherently governmental to achieve program objectives with the optimum balance between performance and cost.

Efficiency tools that comprise strategic sourcing are the OMB Circular A-76 process and functionality assessment. Functionality assessment is based on the private industry business process reengineering approach. Current Navy projections show the strategic sourcing will generate total net savings FY '97 to '05 of \$5.1 billion. The Navy program strategic sourcing will study a total of 90,771 billets, civilian and military.

To date, the Navy has completed 126 A-76 cost comparisons and 32 direct conversions. Over 13,000 positions have been studied. Currently there are 154 studies in progress impacting 18,000 billets.

Of the A-76 comparisons completed to date, 79 percent of the studies have resulted in the work being retained in house.

In terms of results, the cost comparisons have produced the 63 percent reduction in personnel and a 68 percent reduction in operating costs.

There are core lessons that continue to be critical to the conduct of an A-76 competition. The Navy has identified four basic principles to ensure that an A-76 competition is conducted in an efficient and effective manner. The order of

these lessons does not designate one as being more important than another. Rather, all these principles must be integrated into a process.

The first lesson is that time is of the essence. The Navy recognizes the unsettling effect an A-76 study has on the work force. A clearly consistent message that is common among all successful studies is initiating and completing the study in an expeditious manner to reduce the period of uncertainty for employees and provide an incentive for private industry to engage in competition. The longer a competition continues the more the work force is disrupted and the less flexibility private industry has in using its bid and proposal funding to enter other competitions.

The second lesson is the need for clearly consistent rules and policy. Many laws and policies govern the A-76 process.

There are specific statutory requirements and instructions that provide direction on matters related to all steps of the process.

Conflicting or ambiguous policy statements or issuance of revised guidance impacting studies already in progress, and governed by earlier guidance, can significantly impact the results.

The third lesson is that leadership is critical. The level of involvement by leadership communicates to the work force and private industry the importance of the study.

The fourth lesson is developing an environment for win-win competition. This is critical that the selected bid from

a competition is going to fulfill the requirement. Specifically, the performance work statement must address what the government needs in clear and concise language. Identification of multiple functions in a competition provides a basis for true innovation, enabling public and private competitors to examine options and mix and match approaches.

To make substantial progress towards streamlining or improving the cost comparison process is a much wider scope of change than just the OMB Circular and its supplemental handbook. DOD is impacted by legislation in Title 10 and the annual appropriations act. The federal acquisition system and the recent system of performance-based service contracting do not easily mesh with a final decision based solely on cost.

The requirements of the civil service system make it difficult to build an organizational structure that can compete on equal terms with the private sector.

Continued reform in all these areas will be required to improve the use of competition to enhance efficiency. Changes and improvements must be focused on the entire governmental process from procurement regulations to identifying those functions that are critical to the conduct of government business.

Thank you. I look forward to answering any questions you may have regarding my statement.

MR. WALKER: Thank you, Mr. Sowa.

Mr. Stark, I know the Marine Corps normally gets the

leftovers. You've still got time left over.

MR. STARK: We're used to that, sir.

MR. WALKER: I understand that.

MR. STARK: We do more with less.

Thank you for the opportunity to discuss the A-76 program and thoughts about its direction.

The Marine Corps believes that the A-76 program is a tool that provides a specified process for reviewing work load requirements at our bases and stations and the labor force we need to perform those requirements. It also defines the process for a competition for the performance of those requirements. The process is long and difficult but provides a methodology for competition between our in-house work force and private industry in deciding the most economical provider for that service.

A-76 allows our incumbent work force an opportunity to compete for their jobs under a process that is well defined and prescribed. It has been around for a long time, and while it may not be popular with a lot of folks, the years have allowed for the process to be refined in what appears to be a fairly fair competition.

The A-76 process has a proven track record as a cost cutter. Currently the Marine Corps is competing about 4,200 billets and we expect to save over \$6.5 million a year as a result of those studies. To date, we have completed two major studies that are expected to save upwards of about 55 percent in personnel

costs as a result of those studies. We have reached tentative decision on one other study, and we have 16 other studies ongoing at this time.

While we support the A-76 methodology, we also believe that further improvements can be made. The lengthy duration of performance of an A-76 study from start to implementation of the most efficient organization or contract continues to be a major issue. Large, complex studies normally take three years or longer to complete. A large portion of those three years is consumed by the acquisition process mandated by the Federal Acquisition Regulations and the appeals and reviews that seem to occur following every study.

It is this lengthy time line from start to finish that causes us the most angst in the use of the A-76 process. It simply takes too long to start realizing the savings that the study process identifies for us.

How we handle our personnel, determining who gets competed and who doesn't, is another issue that we haven't handled very well. While the FAIR Act inventory process provides us with a methodology for identifying what is commercial and what is inherently governmental in nature, the rules and procedures and functional definitions have changed every year since its inception.

This makes it difficult to develop a baseline and know where you are in that evaluation process. The inventory is a

great tool if we're given the opportunity to identify what functions we're performing, how many people are performing them, and for what purposes such as career progression, skill development, et cetera. We need the ability to evaluate our requirements on a site specific basis, determining those billets that are essential and compete or outsource those that make sense to do so.

Until the inventory is allowed to stabilize, we will continue to have inconsistencies in the coding of functional areas and billets. The inconsistency as the inventory and the lengthy A-76 process have combined to cause the federal work force to resist efforts to classify work and to compete those functions where it makes sense to do so. Because of the current accounting and budgeting system used throughout the Department of Defense, it often becomes difficult to accurately determine the cost of performing many of the activities and functions we've identified for competition.

The Marine Corps has recently embarked on an effort to help identify specific activity costs using a tool widely used in the private sector called activity based costing.

We have instituted the use of this tool to all of our major installations and have modeled their activities in a consistent manner across all of our installations. We're currently gathering activity costs for all of these installation supportive services.

Our next step is measuring performance and evaluating our in-house performance against other providers, so once this information is collected value-based decisions can be made that will maximize savings beyond our current commercial activities efforts. Accurate and consistent coding of billets along with timely and accurate cost of performance data from our ABC efforts will allow the Marine Corps of the future to make smarter decisions on what can be competed and what should be retained in house.

Finally, I would encourage development of a soft landing -- and I put that in quotes -- a soft landing of some sort for our long-term career employees. I'm referring to our CSRS employees that are not yet eligible for early retirement. FERS employees have a portable retirement system of a sort, but many of our long-term employees are still under the CSRS retirement system and cannot take their retirement accounts with them if their jobs are outsourced. If they go, they take a significant reduction in their retirement allotment.

Our civilian Marines have proven to be a loyal, hard working, dedicated work force that put in long hours when called upon to do so, often without overtime or compensation. We're very proud of our civilian Marines. We do not want to see their many years of service to the government be looked upon as anything but a good and satisfying career. Legislation that would allow for retirement portability for our CSRS employees not yet eligible for

early retirement that may be affected by the outsourcing decisions would be a step in the right direction to correct some of those inequities.

In conclusion, I commend the scope of your charter and look forward to the positive recommendations that will enhance the A-76 process without abandoning the career civil servants that have dedicated their lives to public service. Thank you.

MR. WALKER: Thank you, Mr. Stark. I thank all of you. Now we have some time for some Q&A. Let's open it up to the Panel.

Frank.

MR. CAMM: Thank you very much. It was a very good presentation.

We heard earlier from the last panel that it's very difficult to establish exactly what the savings will be from any one of the tools you all have mentioned except for public-private competitions, and yet you all are relying fairly heavily on some alternatives.

Could you give me, General Stein and Captain Schaefer, could you give me a quick idea of what savings you expect to achieve from your initiatives other than competitive sourcing and what experience we have with them to figure out whether those numbers are something we should rely on?

GENERAL STEIN: Well, to lead off there, I did provide in there what we have as estimates from some of the other

sources in there and into the details I think we'd have to go in and look at each individual study or each individual reengineering effort. I can tell you that from a reengineering per se the food service -- or -- excuse me -- the Ramstein linen exchange for a very small operation succeeded in, I believe, if I recall correctly, over 50 percent savings.

Now, we do have reengineering efforts throughout our Air Force that encompass certain career fields. The Air Force is looking at how we can do with things such as safety, things such as our own manpower career field, et cetera, and those come in with documented savings in terms of positions at the end. So the ability is there to get them.

I will acknowledge again to try to put an aggregate number together is very difficult, but it's also one that when you reach down you can find those savings in personnel.

MR. CAMM: Okay. Thank you.

Captain.

CAPTAIN SCHAEFER: Yes, sir. First on the issue of savings, savings is a generic term, and we talk about this in the work we do where we talk about cost avoidance dollars or new program dollars. They're very different things. As you heard in the Crane example, they created savings many of which were in the cost avoidance area, but also that they reprogrammed their work force into what they need to be most productive; what would they be producing for the fleet?

I agree with General Stein. A lot of the savings, whichever they are in the reengineering effort are not as easy to readily identify, but we are working on processes to do that. But when you privatize utility systems there are savings that are generated for which you can do the accounting and figure out what you're saving by having other than government facilities produce power or water or gas or those type things. But it is a much more complex process, which is why as Mr. Stark pointed out, there is a strong emphasis on going to activity based costing to find out what those costs are and then therefore what the savings would be once you go to some other provider.

MR. CAMM: I guess what I'm trying to get a handle on is when we look at A-76 as much as all of us have difficulties with the way it works we do have this history with A-76 and we have some notion of what we've been able to achieve historically with it, and the savings -- we can argue about what they are, but I think we all agree that the savings are substantial. And the challenge we have now is--when we look around at alternatives to A-76--is to say what confidence do we have that we can get the same kinds of savings with them that we're getting with A-76?

As Mr. Walker as mentioned earlier, how can we go after the MEOs without the competition? In the case of competition we know we have this forcing factor. We have this burning platform that forces people to focus. What's the similar forcing function or burning platform outside of A-76 when you

don't have the competition? Have you all thought about that in implementing your alternatives to competition?

GENERAL STEIN: I would say certainly that there's a forcing function in terms of actual budget that you have in your particular service, and the needs that you have are much greater certainly, than what we have capability for. I would bristle at the suggestion that some have that, gee whiz. We need to force the services to do some of this, because frankly it's in our own best interest. We have used it in the past, and frankly we need to use efficiency getting methods there to meet the wartime requirements we have.

That's a pretty significant forcing function right there.

MR. STARK: I would agree with General Stein. We're all suffering from less money than we have the need for. The forcing function is we've got to meet certain functions and perform certain tasks, that the money's not there.

The A-76 process is one tool. It's a mandate. On the other hand, the reengineering and the activity based costing that we're undergoing right now is another tool to do that. Our commanders are smart enough to know they've got to institute some of these things to find the money they need to do the things that they need to do. It's a leadership issue, basically, and it simply comes down to that.

CAPTAIN SCHAEFER: I would just add that we need to

generate these savings whichever they are through the various processes without breaking the system. We still have to provide the support to the fleet. The parts from Crane still need to get to the aircraft carrier. That's the absolute essential part of the mission of the Navy and the Marine Corps, so the savings have to be generated, but you can't break the system that gets the critical part out to the aircraft carrier.

MR. WALKER: Angela, then Stan.

MS. STYLES: Frank asked my main question, and I think probably more effectively than I could have, but I do have a second question for Mr. Wakefield.

You had mentioned briefly some changes that you would recommend to the Federal Acquisition Regulation, and as I'm sure you probably know, I'm the Administrator for Federal Procurement Policy and as such I have statutory cognizance over the FAR, and I would be interested in hearing your recommendations if you could elaborate.

MR. WAKEFIELD: What I said regarding the FAR is that I don't have any specific recommendations for changing the FAR. There are some very minor areas where the FAR differs or conflicts with the A-76 handbook, but those are generally being taken care of and being pursued right now.

GENERAL STEIN: If I might tag team on that one a little bit -- and I'm sure there are always areas that we can address, and some of them are on the seams or on the margins. For

instance, one thing that seems to be at least unclear in some areas is how to handle inflation factors in terms of WG -- wage grade type employees--and I could submit some more information for you with my statement for the record if you'd like.

MS. STYLES: Okay.

MR. WALKER: Stan.

MR. SOLOWAY: Let me just follow up on that briefly, Jim, with you. You made a comment -- and this relates a little bit to the FAR -- you made a comment in your testimony about the subjectivity that would be brought into the process if there was a one-step or best value kind of evaluation. How would you differentiate that subjectivity, or the smell test associated with it, with what goes on now in most government procurements where there's not a public-private competition or best value is the rule of thumb?

MR. WAKEFIELD: Of course, as you implied, in a best value competition it is a subjective source selection determination when it's private-private. Then of course in the cost comparison you take that resulting bid and you put the number on a cost comparison form and whatever the computer says the winner is, is the winner. It's entirely, at that point, an objective decision rather than a subjective decision like in the source selection.

MR. SOLOWAY: I understand that part, but you seem to have some concern as to the perceptions that would be created if

one went to a best value in the public versus private element as opposed to the computer model.

MR. WAKEFIELD: Yes, sir.

MR. SOLOWAY: You said that would introduce a degree of subjectivity to be concerned about. What I interpreted was the perceptions that that might create and so forth. My question is in private-private competitions, most government procurement now, that is the rule of thumb, and that is a process that now is maturing.

MR. WAKEFIELD: Sure. But in a private-private competition you have the public sector making the decision as to what private sector winner is. In a one-step cost comparison as I've described it and as we were discussing it you would have the government make the decision whether the government wins or the private sector wins.

That's an entirely different matter, and there will be perceptions on the part of private industry, on the part of Congress, and on part of the in-house workforce that the government was biased one way or another. We certainly get that claim all the time right now regarding the current process.

Going to a one-step cost comparison where you would have a subjective decision as to who the winner is, public or private, I believe would be fraught with complaints that we wouldn't be able to answer.

MR. SOLOWAY: You don't think that that process --

you're talking about the non-cost factors inherent--can be quantified? In other words, many of those factors can't have measurable outcomes, auditable outcomes, even if they're not directly cost related?

MR. WAKEFIELD: They can be quantified, but there will always be questions as to the values we assign, so in that regard it's a subjective assignment of objective values.

MR. SOLOWAY: Let me ask a second question, and any of you are welcome to answer it. A couple of you referenced the process needing some minor fixes but that it was a relative good process. I think generally you said it was working relatively well.

As we've moved to larger work packages I think at least anecdotally -- and I don't have any data to support this -- it seems like there's been more and more problems with the process. We now have a GAO protest rate which Mr. Walker knows better than I, but I think it's around 75 percent or something in that neighborhood in the last dozen or more A-76 protests being sustained, which is a magnitude higher than the normal sustain rate for protests, so obviously there's some problems in the process.

And what we see even within the Air Force or in any of the other services -- I'm not picking on the Air Force here -- a multitude of processes being implemented within each service. In the Air Force you have two completely different sets of rules

between AFMC and others because of agreements with the work force and so forth. We have different appeals processes being worked in different services. There's very little consistency.

And you and others I think have touched on the issue of centralized management authority or some sort of centralized process, with all of the services on a common -- or maybe even all the government on the same process, same rules, etc cetera. What has prevented you from doing that to date? That would not be something I don't think that would require legislation. Why has that not been pursued by the services to date?

MR. WAKEFIELD: Larger studies?

MR. SOLOWAY: No. The idea of more centralized focus, more consistent management, sort of across the services across the department. You also have defense agencies that are going through this process as we speak, and there are just -- it's almost impossible to figure out what the rules are in any given case.

GENERAL STEIN: Let me try to touch on that a little bit and give you a perspective from our side here. I think we do -- we have tried to incorporate some centralization, but also as you centralize too much then you end up at a distant place from where the function is being performed trying to encapsulate everything in there, and you end up probably with a worse process than you do as you are today.

The intent is to try to get some centralized

direction and decentralized execution as you go, and hope to get the very best answer.

I would acknowledge, and I think all would acknowledge here too, we have got--because of the stakes involved with the larger studies--an incentive for whoever loses to continue appeals until the last avenue, and frankly, a lot of the things we look at today are decided in some measure or form of judgment or interpretations of different perspectives here, and that can change things.

I would submit to you I went to a Navy outsourcing conference and asked some of the leaders in industry, "How do you outsource, and what levels of appeal, et cetera, do you have and the subject of multiple levels of appeal." The impression I got back was extremely foreign to them and something that they would deem inefficient.

Now, again, I would say how do you handle this in a way that efficiently and fairly addresses things but does not draw it out and does not leave things open to judgment. That's the arc here.

MR. WALKER: I think Bobby is up now.

MR. HARNAGE: Captain Schaefer, you mentioned Crane, Indiana, and this Panel had a presentation at the last hearing from Crane. That was the third time I've seen that presentation.

Each time I'm impressed with it. It's not Utopia but it's a very good example of one of the alternatives.

I wonder if you could tell me, do you know if that exists anywhere else in the Navy?

CAPTAIN SCHAEFER: I think it exists to some extent.

What the Crane example brings out is the importance of the leadership and the way the leadership and the managers at Crane took the overall Navy guidance on how to achieve these savings and then applied it to their local situation.

The Department of the Navy, to answer Mr. Soloway's question, is fairly decentralized in its approach in how to achieve these goals, and that is reflected in the way Crane went about the business of creating -- generating their savings and creating more productivity at the same time. However, what I try to convey in my comments is given that, and the culture of Department of the Navy in that we do rely on local commanders to do the right thing and follow Navy policy, we are moving to more sophisticated systems to do policy reviews and data analysis on just what the results show and how it's being done.

That's the drive to ERP. That's the drive to activity based costing so that the programs and the results can be matched with the numbers and what we would call mid-course adjustments can be made, but we do significantly rely on the leadership at the local level to both achieve the results and manage their programs within the context of the overall guidance.

MR. HARNAGE: Thank you for that, but I think that was a no.

MR. SOWA: If I may elaborate from a Navy perspective, the Crane example and the way that we do functionality assessment is not prescribed item by item, function by function. Rather, we have given up purposely to local commanders and the regional commanders and take a look at what's going on. Tailor the functionality assessment process, which is defined as a seven-step process and does attribute savings goals and targets in it so that you're able to measure with metrics what your achievements are and where you're falling short, and then we break that down among the commands and then start gathering lessons learned.

The program has been around for approximately 18 months, and to cite another example, we have up in the PAC [Pacific] Northwest region a functionality assessment that combined family housing, MWR, and child support services. Take a look at those three functions and they could more efficiently combine them and then get the benefit of that service to the service members.

So what you see throughout the Navy is different levels of functionality assessment being applied either at the local level, at the regional level, or very rarely in a claimant level.

MR. HARNAGE: Did you say Pack?

MR. SOWA: PAC Northwest.

MR. HARNAGE: I've been to Pax River, and that's very close to -- General Stein, in your presentation what most

impressed me was the 'must examine' facts before setting targets, and what I'm looking at is this morning we heard that many times a problem is that we're looking at positions rather than functions, and because of the requirement to get down to certain numbers, bean counting as I call it, has an impact on the function. It meets the goal but it doesn't necessarily meet the needs of the function that you're looking at.

For example, you can directly convert eight, nine, or ten positions, but that's not looking at the function so to speak, so my concern is, what impact do you see--what I consider an acceleration of this process--by the requirement to convert or compete 5 percent of the FAIR Act, and how do you see the FAIR Act playing into that -- while you're trying to right size your particular activities and the 425,000 federal jobs that are now on the chopping block for competition. How does that play into your strategic sourcing, anybody?

GENERAL STEIN: I'd say overall that the administration has set out a goal that we have there. Our intent, as I said, from within is to try to find the most efficient operation we can, and we do that by function as you saw there, career field stripe, Air Force wide, to look and say "how can we shift our focus? How can we posture or shape our force so that we have the most opportunity through either one of the tools to get where we need to be?"

We do that also by base as we mentioned there to try

to take that mass of functions at one installation and say, "can we achieve efficiencies there?" I think there's a pretty detailed look across the board.

I would submit to you too, one thing that we ought to look for again is actual versus artificial economies, and one thing I touched briefly on there is looking at where it makes sense to compete. There may be a bottom limit where you end up spending more money on the competition in terms of human capital than you actually gain in savings. That might be something again to look at to look at efficiencies.

I believe the administration -- I've heard Mr. O'Keefe from OMB talk -- the essence of this is for efficiencies.

MR. WALKER: I would suggest -- I know there are several people that want to ask questions -- I would suggest that you either make it a quick one or ask it for the record --

MR. HARNAGE: May I make one last comment, and it was to ask you if you might submit some additional comments. I agree with the chairman that to me our everyday job is the MEO. It shouldn't be "threaten us with competition or threaten us with losing our jobs," that we get down to MEO. And I've looked for some years and I've talked to high officials in the Pentagon and in the administration what my feelings are on that. Any suggestions that you have, how do we go about the MEO being our everyday job?

I think it's commendable that we can compete and save

20 percent on a minimum. I also think that's ridiculous that we're operating at a 20 percent inefficiency day after day until we go through this competition. So how do we address that without putting employees jobs in jeopardy?

MR. WALKER: Frank, quick.

MR. CAMM: Just a question for the record.

One thing that all of you emphasized except Mr. Wakefield in your presentations was that there is -- you all don't like how long this process takes. I don't think we like how long it takes either, but what I heard you saying is the FAR pretty much drives that outcome.

If you all have any ideas on how to shorten this process, whether it is ideally changing the A-76 process or doing something else in the FAR that would help with this, we would very much appreciate that as a way of trying to find some way of improving the process to make it less onerous.

MR. WALKER: Thank you, Frank.

Bob.

MR. TOBIAS: I have one sort of corollary question from Bobby's question and then one I'd like to ask briefly.

Mr. Wakefield, you talked about slow rolling and the need for leadership. You all mentioned the need for leadership to conduct these studies in a faster, more efficient way.

My question is what would you recommend to this Panel that it recommend to stimulate the kind of reengineering efforts

that you've described and the faster accomplishment of the A-76 efforts? Are there any kind of carrots that might be developed or designed that would stimulate the kind of behavior that we're interested in having? So that's for the record.

My other question is what do you all do, if anything, to ensure that the MEOs that are created do in fact achieve the highest possible level of efficiency? We've heard from others who have said that needed reorganizations are blocked or mid-level managers that need to be eliminated aren't eliminated and so forth. Is there any process that you have in place to ensure that those kinds of barriers to the best possible MEO being created is in fact created?

MR. WAKEFIELD: In terms of enforcement we already have the A-76 provision that requires the post MEO performance review, and it says if they don't perform, contract it out.

MR. TOBIAS: I'm talking about in the development of the MEO. I'm talking about in the development, in the initial stage where the competition occurs.

MR. WAKEFIELD: The competition provides quite an incentive, and we provide some guidance. We provide contractor support in terms of consultants to performing the reviews. What else? I don't have one.

MR. STARK: I think with the sharing of information and most commands understanding that it's going to take at least a 20 to 30 percent reduction in the work force to be competitive,

that's pretty much of an incentive for them to really scrub the organization to say, "Do we really need to do that? Can we eliminate that? Do we need this position? Can we eliminate that position?"

I think the competition itself, as Jim has just said, is really the driving factor in how hard they look at what they do. As I said earlier, I've got two organizations that just finished studies. One was a reduction of about 56 percent and the other one was a reduction of 52 percent. Both of those studies have stayed in house, but that's a significant reduction, and it was driven predominantly by the fear, if you will, of knowing they have to get down probably by at least 30 percent from the previous experience of other commands to be competitive.

Shortly after those results came in I got phone calls from every command in the Marine Corps asking me what the results were. "How much was the reduction?" And probably half the organizations in the Navy, the Army, and the Air Force are aware of those results as well.

MR. TOBIAS: Thank you.

MR. WALKER: I want to ask two things for the record, if you could think about providing this information for the record. First, I've heard all of you testify to varying degrees that in order to be able to hit the deltas, in order to be able to hit the targets that you have for savings that you determine that you could not hit it solely by A-76, and therefore you have

pursued other approaches. Call it strategic sourcing or whatever else. Presumably, many of those involve situations where federal employees are currently doing the work, I assume, in some circumstances.

My question is that "is there something wrong with A-76 or what am I missing here?" If you couldn't achieve it through A-76 then what caused you to have to go to other alternatives, and roughly what magnitude is involved in other alternatives versus A-76, and this is only in circumstances where federal employees are currently doing the work, not situations where they're not. That's a different issue I think.

Secondly, I'd like to have any comments that you have on the differences between strategic sourcing and A-76 as it relates to three factors: cost, performance, and I'll add a third, readiness, which means such issues as morale, flexibility, and reliability, so any comments that you have with regard to that would be appreciated.

Anything else?

(No response.)

MR. WALKER: We're going to come back at one o'clock.

I want to thank all of you for being here and making your presentations, and we'll begin again at one o'clock, after a break for lunch.

(Whereupon, the proceedings went off the record at 12:00 p.m. for a lunch break.)

A-F-T-E-R-N-O-O-N S-E-S-S-I-O-N

(1:00 p.m.)

MR. WALKER: It is now time for our next panel, which will represent a range of industry views. We're pleased to have all of you with us. We appreciate your taking time to come and testify before the Panel.

Just to remind everybody, please keep your statements to three minutes, hit the highlights. We'll incorporate your entire statement into the record. We are happy to leave the record open for another couple of weeks. If there are other things that you want to supplement we're happy to do that, but the key is we want to try to maximize interaction with the Panel members so that we can engage in some Q&A.

So with that -- I see we're now going from right to left, at least my right to left; your left to right.

Mr. Lombardi, why don't you please start off?

MR. LOMBARDI: Mr. Chairman, members of the Panel, I'm Paul Lombardi, President and CEO of DynCorp, a provider of a wide range of technical support services to the government.

I'm here today to share our experiences with this Panel, both to illustrate a process that does not and cannot achieve appropriate results and significant savings without substantial change.

I'm going to limit my remarks to conflicts of interest in the process, because they can be readily addressed.

These conflicts guarantee an inequitable and delayed award decision and an escalation of mistrust among everyone involved.

First, the checks and balances that are supposed to confirm the MEO is right sized and meets the requirements of the statement of work are completely inadequate to do so, in large measure, because those performing these functions are too willing to accept the decisions made by the MEO even if they don't make any sense.

We have seen MEOs that do not contain any positions for program management, no provisions for mid-level supervisors. We've seen MEOs without personnel performing quality assurance functions and MEOs that do not contain required key positions identified in the statement of work.

Consider for a second whether a contractor would ever be selected as the best value in a cost comparison without a full-time program manager or required key personnel. In two recent cost comparisons in which we participated, the MEO bid millions of dollars in personnel costs that were required to be in the contract cost proposals. In both cases the missing costs were acknowledged to be required in MEO costs by either the agency appeal authority or the GAO.

Although we were entitled to contract awards in both procurements, once the missing costs were added to the MEO, we received only one award. According to the GAO, the cost savings for that contract would have been in excess of \$11 million. We

think that number could have actually been doubled.

Another very significant conflict of interest is that under A-76, individuals responsible for compiling costs of the MEO are also tasked with determining the amount of the cost to be added to the contractor proposal for conversion costs. This puts the government in the position of being able to increase the cost of contractor performance while at the same time competing against the contractor proposal. Our experience has been universal. Conversion costs are based on inflated estimates and undocumented assumptions.

We have had one very positive experience with contracting out that I'd like to share with this Panel. In the past year we had the good fortune of participating in cost comparisons for the operation of the 89th Airlift Wing at Andrews Air Force Base. In that cost comparison, the Air Force analyzed private offers and the government proposal according to the safe evaluation criteria. The procurement officials confirmed that all offerors, including the government MEO, met the statement of work requirements, conducted a probable cost analysis for all proposals, including the government proposal, and increased the cost of government proposal to account for the risk of performance and the costs required to perform that work statement.

Even if we had been unsuccessful, we believe that the Andrews cost comparison was both fair to government and the industry and would result in a legitimate and significant cost

savings. I encourage the Panel to review that process.

Thank you, Mr. Chairman.

MR. WALKER: Thank you, Mr. Lombardi.

Mr. Delane.

MR. DELANE: Thank you, Mr. Walker.

By way of introduction I'm John Delane, president and CEO of Del-Jen. Del-Jen is a family company doing base maintenance and construction work for the defense department across the country.

We did our first A-76 cost comparison back a very long time ago in something in the vicinity of 1982, and to the extent that we've been doing it a long time we think we'd get it right by now. The truth of the matter is we do indeed have some positive success stories, and like Paul, reflect on the fact that one of the things that we all need to look at are the successes that are out there and some of the things that have been done very well around the system.

To the extent that we're at Lackland today -- and Lackland is the focal point of a lot of controversy today -- the AETC team needs to be singled out as an example of a team that has done it right and done it well in the past, with Tyndall Air Force Base as an example. A cost comparison study for the entire installation was done now nearly four years ago very successfully, transitioned very successfully, and is now coming up on a follow-on procurement process in an orderly fashion with literally no

problems.

To the extent that there are some lessons learned from that I'd like to share with you sort of a consolidation of what we think the core issues are, and they're focused around basically how the process is being done versus how it could be done, and that really narrows down to the issue of the day to day implementation. It's too fragmented. It's basically being done at the installation level. There are too many people to train. There are too many people reinventing the wheel, and there is no continuity.

Continuity is attainable if you will create as a recommendation a system whereby you allow each major command to take and create a team that does nothing but these studies. In turn, create an appeal process that is elevated above the commands, even above the service level, and allow one focal point for all appeals to be done and eliminate multiple appeal steps. One round of appeals, a decision is taken, and get on with it.

To the extent that there's one final issue I address it's the concern over the outcome of the percentage of sustained protests that are out there. A recent comment that indeed there's a high percentage going in favor of the contractors is misleading in that all of those have effectively been hollow victories because none of them have resulted in contracts being awarded, zero, none, and to the extent that the Congress has allowed the GAO's final authority on this to be undermined by the process of

allowing a separate adjudicative authority in the form of the IG organization should be troublesome to all of you and one that needs to be addressed from the standpoint that as a personal reflection and one of the participants in Lackland, as comprehensive as that assessment was, there was one cast of characters that didn't get assessed by the DOD IG, and that was the contractor.

Imagine, if you will, having been audited by the IRS, and the IRS never talked to you. We're at the mercy today of a decision that's going to be made by the Air Force as it relates to Lackland outcome, and we've not had a day in court.

Thank you very much.

MR. WALKER: Thank you very much.

Mr. Finley.

MR. FINLEY: Thank you for the opportunity to speak before this blue ribbon Panel today on various competitive sourcing issues. My firm, CC Distributors, from Corpus Christi, Texas, is an integrated wholesale supply company that provides numerous civil engineering products to the federal government through a comprehensive supply network of manufacturers, distributors, and other buying groups.

Through this process, CC Distributors has learned over more than 25 years that outsourcing and privatization are not about cutting services. Neither is it a question of doing more with less, and we are certainly not talking about a loss of

capability. Outsourcing is about changing who provides the service or supply. It's about becoming more efficient and saving money, and in the case of the United States military maintaining the combat capability, improving performance and readiness.

I have submitted a detailed written statement to the Panel for consideration. Today I will focus on some of the general cost issues as well as address three false beliefs regarding private sector contractors.

The process that you account for costs requires total visibility, and my firm has been involved in more than 22 A-76 competitions. It is critical that a government-wide activity based cost accounting system or generally accepted practice be established to ensure the federal cost proposals truly reflect all relevant direct and indirect costs. The system should incorporate all costs, even including the cost of money.

An activity based cost accounting system alone is not enough to ensure taxpayers are getting fair private-public competition. The misperceptions are -- the first assertion is that the government service and supply contractors have few rules and achieve savings by paying their employees less and reducing benefits. However, this federal procurement processes are complicated where the laws and regulations require companies to do business "the government way" and implement unique systems for accounting, quality assurance, production, management, and wages.

The second assertion is that the lowest cost always

assures long-term performance and best value. However, best value is generally represented by the most advantageous offer, its affordability, and a long-term commitment to performance and innovation.

Another assertion is that once a private sector company wins a public-private competition their performance is never reviewed and there is no more competition on that contract.

However, past performance is an increasingly important component in the evaluation factor in selecting the best private sector competitor, ensuring that the government selects a firm with a proven track record of providing quality services and supplies in a timely manner.

Competition -- competitive sourcing initiatives are aimed at helping management identify those programs that do not support agency strategic plans under the government performance and results act and to help the agency identify those programs that do not support core missions. The end result is a more efficient and effective government that is better able to serve the American public.

Thank you.

MR. WALKER: Thank you, Mr. Finley.

Mr. Sorensen.

MR. SORENSEN: Good afternoon. My name is Jeff Sorensen. I'm here representing CH2M Hill, and am in the place of Gary Craft, who was called out of the country this week.

CH2M Hill is a 54 year-old employee-owned project delivery company that provided about \$750 million in services to the federal government last year. Today, I want to take the opportunity provided by the Panel to express some concern over the conduct of the commercial activities process which has caused CH2M Hill to severely limit our participation to a very few studies where we predict the process will be applied fairly.

Our key point is that consistency and treatment between the government and private sector participants is essential for the credibility of these competitions and to ensure that adequate competition is achieved to secure maximum benefit for the taxpayers.

After having proposed as a joint venture partner or subcontractor on eight commercial activity studies we have lost confidence in the process. We found that the government does not, for whatever reason, apply consistent processes in the evaluation of the contractor's proposals in certification of the most efficient organization in leveling of the two, or the government does not hold the MEO accountable for execution within the proposed price. As a result, errors typically favor the government's proposal.

As an example, of three A-76 studies we were subjected to DCAA price reasonableness audits despite the fact that the contracts were to be firm fixed price. During each of these audits our material rates were challenged as too low. To

prove reasonableness we were required to submit our subcontractor's material costs on all similar contracts.

The government, on the other hand, proposed material rates that were yet 45 percent below our too-low rates, and which in two cases turned out to be the margin of victory for the MEO. We recommend that the same level of scrutiny be applied to ensure that the MEO's price is reasonable and is subject to the same standards as are applied to the contractor's proposal.

We also recommend that the review of the MEO's proposal be done by an independent and impartial third party.

If successful, contractors are bound by their contracts, which are administered by the government. The government must then account for and ultimately approve every change order in contract price. There's no similar accountability or oversight on the government's performance under the MEO that we can discern. To ensure the same level of confidence in the cost and quality of performance on both sides of the competition we recommend that when the MEO retains the work in house periodic audits be conducted by a competent third party to determine whether they are performing in accordance with this contract.

We're aware that such audits are provided for, but we have rarely seen any take place. Though we rarely protest contractor outcomes, the lack of credibility in the process compelled us to do so in one case. However, when heard by the GAO the case was dismissed as academic because the Navy acknowledged

that their decision was flawed, and they agreed to address those flaws.

That was more than four months ago and no decision has been forthcoming from the Navy. In fact, the MEO has since been implemented despite GAO finding for the merits of our case. Thus our confidence that we will be treated fairly has been eroded further.

We also recommend, therefore, that the GAO stay engaged on each protest which is found to have merit until it is brought to final resolution. Thank you.

MR. WALKER: Thank you very much, Mr. Sorensen.

Mr. Donnelly.

MR. DONNELLY: Good afternoon. My name is Mike Donnelly. I run business development for EG&G Technical Services.

I've been involved in the private sector government service business for 20 years this month.

EG&G is a \$500 million business with about 350 employees here local in San Antonio and 4,500 employees nationwide. As a representative of EG&G, I'm pleased to have the opportunity to address the Panel on this process.

We've participated in several of the A-76 studies as well as the base closure privatization studies. We have won some of these and have lost some. On the wins, we have had some success stories regarding transition and on other wins, we have not.

I'm not an advocate of public-private competition. The process is flawed, and I'm not sure that the inherent problems can be fixed. I will mention two issues that are of concern to me.

A level playing field is very difficult to define if at all possible. The process generates too much suspicion and resentment between the federal workers and industry. These are the very people that have to work together if the private sector is successful and wins the contract. I don't believe it's fair for either the contracting community or the federal workers.

Accountability after award is also unclear in that if the public bid wins a competition I don't see the checks and balances to assure that the promises and commitments that are made are fulfilled. I hope we can agree that generally speaking, competition is good, but if accountability is missing from the equation what's the point on having a private sector -- what's the point?

The private sector side has the accountability that's been put into place over several years. No question, past performance appraisals, award fee determinations, penalty clauses, et cetera keep contractors on track.

Private industry drives innovation and creativity into their bids. I don't see the same accountability or checks and balances imposed on the public sector.

As I have mentioned, I don't believe in public-

private competition when a decision is made to outsource a service, and I firmly believe that some services should not be outsourced. It should be a private industry competition.

I appreciate and strongly support protection of federal workers. When private-public bids propose cuts of up to 30 percent, federal workers are not being protected. By developing a process that reasonably protects these employees, their years of service, benefits, et cetera, long-term savings--I believe--can be achieved, and I believe it should be achieved where accountability is already in place, and that's in the civil side.

A last note. I'd like to mention that there are a lot of hardworking people that have been working on these bids, both federal workers at the installations and also in private industry. There's a lot of frustration and anxiety involved in this, as we all know. There's another group that's also had a lot to do with this, and they get frustrated also, and that's the contracting organization, the contracting officers, and their people.

I personally believe that they are doing the best job they can at judging these proposals. I believe that the road map is not really there for them, and I believe they deserve a lot of credit. Thank you.

MR. WALKER: Thank you, Mr. Donnelly.

Let's open it up for questions from the Panel. Stan.

MR. SOLOWAY: I've got one for -- it's for all of you, but let me focus it first on Mr. Delane and Mr. Sorensen.

You both talked about transitions. Mr. Sorensen, you said you'd had some successful and some not successful, I believe.

Mr. Delane, you mentioned Tyndall. What were the keys to the successful process and the successful transition, the differences you saw where they've been positive and negative experiences?

MR. SORENSEN: We've actually not had a successful go at an A-76 process. We've had successful recompetitions, but not A-76 --

MR. SOLOWAY: Maybe it was Mr. Donnelly. I'm sorry. My mistake. I apologize.

MR. SORENSEN: That's okay.

MR. SOLOWAY: But go ahead. I didn't mean to cut you off.

MR. SORENSEN: I'll allow those who've been through it to comment on that.

MR. DONNELLY: I think the difference between a successful and an unsuccessful transition are the people involved.

It's the management team that comes in and the communication that's established. That makes all the difference, and that is how we've had some successful transitions, and it's also where I think the core of the problems are in the areas when we've had transitions that have not gone well.

MR. DELANE: I think the support from the command is

a secret to how they get done and done well. The ATC was behind the Tyndall process. They gave the support to the local wing commander. They made sure he was empowered to be able to take and move the process along. It moved along in a timely fashion. It came down to the final phases of the process, and he ensured personally that it stayed on track, stayed on schedule, and came off as planned.

It was a partnering environment from day one, and where that's real and supported by the command it can happen.

MR. WALKER: Angela.

MS. STYLES: In my conversations with private companies about the A-76 process I think I have noticed in the past few months a trend towards a reluctance to bid. I think there's a lot of companies that have bid before and going forward have decided they're not going to anymore, or a lot of companies that have decided they're not going to at all, even if they never have before, and you all -- I think Mr. Sorensen and Mr. Lombardi in particular raised concerns about consistency, fairness. But one thing I didn't hear from any of you are concerns about the length of the process, and I was wondering if you can comment about concerns you may have with the length of the process and whether that is leading to the reluctance that I'm seeing and any suggestions you might have for shortening the process itself.

MR. LOMBARDI: Let me start. Part of the frustration that we have is that we have a fixed amount of G&A dollars to

advance our businesses along. If, as a businessman, I were to do a fair amount of A-76 bidding at a fair amount of cost -- which, quite frankly, is G&A cost that we pass on to the government in our indirect rate structure -- and they get through this process and find that the degree of frustration that exists and the GAO findings that are not upheld, one has to question whether I've lost opportunity and my shareholders are suffering as a result of that.

The reluctance to bid is because I can spend my B&P dollars on efforts that can lead to success rather than frustration, so that's one element to your question.

MR. DELANE: I think there's a secondary element that we get more concerned about, and that's the human element and the impact on the work force that's been talked about already today: the fact that the work force goes away; it vaporizes as the process gets dragged out.

Again, to use Lackland as an example, we were notified a year ago this month that we'd won the thing, and yet here we are still a year later. The work force grows more frustrated. They're disintegrating, if you will, taking other jobs, leaving, and we all need that core talent to be able to have any chance to succeed should we ultimately be successful in the thing.

So the time process and the need to shorten the time process by having a consolidated team that does nothing but the

studies keeps them on schedule, and a single appeal process that does away with the process of draining out multiple steps in the appeal process, are all examples of things that need to be grasped and implemented in order to take and shorten the time frame.

MS. STYLES: You had mentioned specifically an organization within each command. Do you have any suggestions for this civilian agencies, how they might be able to organize to take care of that?

MR. DELANE: I think unless the civilian agencies are huge I think they could have a single team that did nothing but the studies for that entire agency. The concept being that if somehow there was an appeal authority of some consortium, if you will, that could take and hear the appeals above the command level or above the agency level that would listen to appeals, would adjudicate appeals, that would be representative of people that are knowledgeable and understanding -- part of the problem I was alluding to with this IG evaluation is that it was a group of people that had no A-76 experience, so they spent months discerning what A-76 was about.

To the extent they gave it their best effort, you know, that's all fine. The reality is there needs to be an educated, trained group that is going to do the studies and another group that's going to adjudicate the appeals, and it needs to have an expedited schedule.

MR. WALKER: Joe.

MR. SIKES: Two questions; one for Mr. Sorensen first.

This may be unfair, because it was something I read in Mr. Craft's statement, and I didn't hear you say it, but you had mentioned that there was some concern that some of the problems in A-76 were being spread into other privatization efforts, specifically utilities, and it related to whether the government should share cost. Could you comment on what that -- I didn't understand it exactly from the written statement.

MR. SORENSEN: That's correct. The utility privatization process which started in late 1987 and is ongoing to this date identified that one of the primary factors in a successful privatization is that it reduces the current cost of government ownership, operation, and maintenance of a utility system. Many installations have taken that to mean that they can define government -- current government ownership as being an MEO if you will, and they are refining their organizations, setting up this MEO, and applying some of the A-76 principles to these studies, which tends to put us back into the same routine of these kinds of commercial activities types of competitions, which was never as far as we understand the intent of the legislation for privatization.

MR. SIKES: So you would prefer it with a should--the way it should be--as opposed to the way it is?

MR. SORENSEN: Correct.

MR. SIKES: Okay.

A question for everybody, with your experience when you get contracts through this process what percent of the work force you use for the contract comes from the workers that were already there just generally speaking. Mr. Lombardi.

MR. LOMBARDI: With one exception I would say anywhere from 60 to 80 percent of the existing work force transitions to the private sector.

MR. DELANE: Our experience is that we hire 100 percent of those that make application. There's a percentage that choose to retire, go do something else, open some business that don't make application for whom we have no access to, but to the extent that there is a work force there we will hire virtually 100 percent of them, and that's our track record.

MR. FINLEY: In our case we will generally -- we will offer jobs to all those, but we end up with 60 to 80 percent of government employees to start the project.

MR. DONNELLY: Ninety percent is our goal.

MR. WALKER: Thank you.

I've got a few if nobody else.

Mr. Lombardi, you mentioned about the one positive experience with the 89th Air Wing at Andrews Air Force Base. What were the primary factors that caused you to believe that was a positive experience?

MR. LOMBARDI: It was an attempt by the source

selection authority in that case to create a level playing field to compare the public sector and the private sector bid at the same time by an impartial non-interested third party, certainly within the Air Force, and both the technical as well as the program management experience and everything was judged equally and then basically a decision was made. That was appealed by the delegation in the State of Maryland but quickly overruled by the agency.

Again, to my friend Mr. Delane, you mentioned partner. I cannot overemphasize in that success the importance of a formalized partnering process. When the expectations of the contractor and the expectations of the government contracting officials are married at the beginning of the project so that everybody knows up front where you're going and what the expectation levels are. That has proven to be successful not only in A-76 events but just about all government contracts.

MR. WALKER: I'd like to note for the record that unlike in Congress where you don't have a level playing field between you and us we do have a level playing field. We're all sitting on the same level here.

But in any event, Mr. Delane, you mentioned that there have been a number of bid protest decisions where GAO has ruled -- has overruled the initial decision but that none of those have actually resulted in contract awards. Are you talking about in the history of GAO?

MR. DELANE: I'm talking about the last two years.

MR. WALKER: Two years?

MR. DELANE: And this is a statistic your associate quoted the other day, that indeed there have been seven A-76 protests sustained and none of the seven have had implementing action taken.

MR. WALKER: We'll have to follow up on that, because obviously to the extent that the statute envisioned a process by which there was some independent adjudication if you will, then obviously that ought to be effectuated within a reasonable period of time. I know we've sent at least one letter recently that I recall in conjunction with an Army competition where we sent a report to Congress and to the Army expressing our displeasure with the fact that they had not implemented our decision, but this may be another area we need to look at. It could potentially be combined with other issues where we're talking about equal access to independent field authority.

MR. DELANE: And if I could, I think the corollary I was trying to get to is that the concern - deep-seated concern industry has--is that there's a sinister concern, in our view, that the authority of the GAO as the final arbiter, if you will, for contract bid proposal disputes has been undermined by Congress's encouragement of DOD to implement the IG solution so that it raises the question in industry, who is the final arbiter, and how is there another level of adjudication?

We're involved in another one already where the impression is being given that in the event a decision is again reversed that this same DOD IG vehicle is going to be proffered and it's already had the groundwork laid, and we can expect that to be the future. If that's the future of it, if Congress indeed wants to take away from GAO that adjudicative authority and pass it off to someone else, I think industry is going to say, "Wait a minute. What's going on? Who is the final decision maker?"

MR. WALKER: It seems to me no matter what the final adjudicatory process is you need clarity, you need consistency, and you need equity, and if you don't have those three things, it isn't going to work.

Mr. Sorensen, could you let me know which decision you're talking about with regard to the Navy that you refer to?

MR. SORENSEN: That's the Lemoore [Naval Air Station] decision.¹

MR. WALKER: Thank you.

And, Mr. Donnelly, you mentioned that you weren't for public-private competitions but rather what you thought should matter was a more fundamental question should be asked as to what should the government be doing, and after that decision is made as to what the government should be doing, depending upon what the answer to that is, if it's a should be in the business then it should be done by federal employees. If it shouldn't be in the

¹ The Jones/Hill Joint Venture-Costs, B-286194.3, March 27, 2001.

business then it should be done in the private-private competitions.

That kind of begs the question of what should the government be doing? What are your thoughts from the standpoint of such questions as what is inherently governmental and to what extent are there a need for certain core capabilities to be retained either for flexibility or for readiness or for whatever purpose? Whatever thoughts you have on that and anybody else might have would be appreciated.

MR. DONNELLY: Well, I left that vague intentionally when I said it, and I said it because I don't care in some respects what the government decides they ought to be doing. I really want to just look at the things that government decides to outsource, and I'm not trying to get -- enforce my opinion into the discussion at all.

I say that because I think if it was sorted out at that level we could then move on to address the real issue which is, what I think, is the federal employees themselves and reducing in the displacing and all that. I think that's the real issue here, and I don't believe that public-private competition is ever going to solve that. I think it creates more frustration and suspicion and all than anything it achieves.

I also believe that any type of cost savings goals under the A-76 system would clearly be made if not beaten by just direct private competition, so I would just try to focus on how we

address just the federal workers and making sure that this doesn't turn into a system whereby all you're doing is trying to create -- trying to figure out a way to reduce jobs on base.

MR. WALKER: Frank.

MR. CAMM: Could I follow up on that? That's a very interesting point of view. I hear many people argue that private-private competition might be the right answer but that we need public-private competition to allow public employees an opportunity to defend their jobs. And what I hear you suggesting is, well, no. They really suffer more from these competitions than it's worth, even though this may be their only opportunity to have some input into the decision on what goes into the public and private sector.

Did I hear you properly?

MR. DONNELLY: Well, I don't really want to speak for them either.

MR. CAMM: Yes.

MR. DONNELLY: I think we've all mentioned the high percentage of people we go after once these jobs are won. We want to bring these very people into the jobs once these contracts are awarded. So I think that the private to private competitions serve the best vehicle to meet the long-term savings, primarily because I don't believe there's the accountability and checks and balances systems are there if the public sector wins. I don't know how you evaluate down the road whether or not -- and whether

you're going to sustain those savings.

You already have all that, and therefore that's why I think that's the best vehicle to use if you really want to achieve those savings in the long run.

MR. DELANE: Can I address that question, Mr. Walker?

MR. WALKER: Sure.

MR. DELANE: We participated last year or the year before in a sole source direct conversion on an A-76 that took place in Florida, and one of the interesting outcomes of it was the rationale that the Air Force used in making the decision at MacDill to do a sole source A-76 direct conversion without a cost comparison, and that was an assessment of the work force and what the work force -- the incumbent civil service work force--did or didn't want to have happen. They didn't want the study.

And the question I'd have to ask you is are you trying to get something for somebody that doesn't want what you're trying to do for them?

MR. WALKER: Stan.

MR. SOLOWAY: One of the -- a couple of you touched on the human capital, human interest issues, but none of you addressed a couple of issues that were raised this morning we've all heard before that's going to strike at the heart of that. We heard several people talk about contractors slashing wages and benefits, and we also heard several people talk about the difference between those who are in public service and those who

are in private sector service and the loyalties that engenders and so forth.

Can any of you address those two issues and what your personal experience has been? The actuals, not just in philosophy.

MR. LOMBARDI: One of the previous panels discussed the Service Contract Act and whether or not -- I think Bobby had mentioned that only on 20 or 30 percent of the government -- I was confused whether it was government contracts or A-76 studies -- invoked the Service Contract Act.

If this Panel took his recommendation that in future A-76 studies that require the Service Contract Act as being a substantive requirement in the request for proposals both in the private sector and the public sector, that invokes a whole bunch of other standards which more or less guarantees certain wage in certain areas of the country and certain fringe benefits.

Now, one might argue whether or not those are sufficient, and we've heard arguments to Congress that those are insufficient under the minimum wage. That's another issue. That's a completely other issue that has to be handled outside the realm of the A-76 discussion.

But I think that if those were required in the solicitations then the equitability of compensation would be addressed by both public and private sectors.

MR. SOLOWAY: Aren't they required now? They may not

be called out in an A-76 -- I don't know -- but aren't they required by definition if the work falls under SCA it's required? I'm not clear.

MR. SORENSEN: Only if it's a requirement of the contract. It can be a requirement or not.

MR. DELANE: The vast majority of them, from our experience, are required.

I think to respond if I could to your question, I heard this allegation that the loyalty issue is to the company and not to the installation, not to the government. Frankly, our work force is really unhappy about that and they told me that personally, because they are effectively the displaced civil servants who were loyal to their base, their installation, their command in the first place and are still very much loyal in the same way.

To the extent that they still have an obligation there or loyalty there and an obligation to a private contractor is something that I think is achievable, and they're quick to point out the fact that their loyalty in fact can be split and they believe fairly so. They don't make decisions that are not in the interest of the taxpayer to that extent.

MR. WALKER: Bobby.

MR. HARNAGE: You mentioned the direct conversion down in Florida. How many employees were involved in that?

MR. DELANE: Employees and company employees?

MR. HARNAGE: Right.

MR. DELANE: I believe they studied something in the vicinity of 3- to 400.

MR. HARNAGE: Okay. The reason I'm hearing from all five of you what the federal employees' desires are, and I'm sitting here amazed. I represent 600,000 of them and my opinion of what they want is 180 degrees away from what I'm hearing from you. They do want the opportunity to compete, and it's not based on saving their jobs. It's based on what's best for the taxpayers. They think they do their jobs very well and they ought to have the opportunity to compete so that the most efficient and effective organization prevails.

So I'm amazed at how much you're purporting to represent these people that I talk to every day who actually employ me as their representative that nowhere near reflects what you're saying.

On Andrews Air Force Base, Mr. Lombardi, wasn't that A-76 process terminated and a direct conversion made rather than the A-76 process being completed? Isn't that what happened there?

MR. LOMBARDI: I believe there was a waiver to the A-76 process to allow the cost comparison to be done in the way that I previously mentioned, but I don't believe it was --

MR. HARNAGE: Okay. And the -- I have some concern of what I'm hearing about the Service Contract Act. I don't think the percentages here is what's important. What I'm hearing is

that where employees are faced with imminent unemployment that the contractor community should be able to take advantage of that and offer them less wages than the prevailing wage in the area.

What's wrong with the implementation of the Service Contract Act? How is that unfair?

MR. DELANE: I guess I'm confused. The contracts either have the SCA in it or they don't. We don't have a choice.

To the extent that it's in -- and I don't know of one that hasn't had it in that's a service contract, because I don't think they can be issued -- I don't understand the question.

MR. HARNAGE: Well, I was getting the impression that you considered having to come under the Service Contract Act somehow was unfair.

MR. DELANE: I didn't say that.

MR. LOMBARDI: I hope I didn't lead you to believe that either.

MR. HARNAGE: Okay.

MR. WALKER: In fact, Mr. Delane, I thought you suggested that one of the things that we might consider, not necessarily recommending it, is whether or not it ought to be applicable universally in these circumstances as a means to try to take away this issue. I'm not saying we should or we shouldn't, but I thought I heard you -- I thought I heard one of you say that.

MR. DELANE: I think from an industry perspective

industry feels that SCA should be there as a leveling mechanism so that, indeed, you don't have someone come along and offer substandard wages that they can't hire for. It takes advantage of the work force, so our company's position, and I believe the trade associations that have spoken out on the issue, have been emphatic that SCA should not go away. There has been much discussion about it here last year, so we've been a supporter of it remaining in effect.

MR. SOLOWAY: And the concern being primarily the wage grade employees. Am I correct?

MR. DELANE: Correct.

MR. FINLEY: I might say, Bobby, that from our company's perspective we are absolutely not -- the Service Contract Act wage is fine as far as we're concerned. It does level the playing field. But I must say that 90 percent -- 85 to 90 percent of our billable costs are supplies, not labor, so we're kind of a reverse scenario. But I think it does and it certainly enhances the conversion in terms of if we prevail in the competition.

MR. DELANE: Mr. Walker, if I could come back to Mr. Harnage's comment?

I don't dispute the fact that your view of the work force wanting their day in court to have an opportunity to compete is accurate, and please understand that I'm giving you the report from MacDill. Is MacDill representative across the board? No.

All I'm saying is the point of the panel that there needs to be an assessment of the fact that there are differences in installations and commands that needs to be recognized, and the wishes of the work force and their preferences whether to go through a process or not ought to be something that should be assessed and there should be a way to do it.

MR. SORENSEN: If I may make just one more point about the Service Contract Act, CH2M Hill routinely pays benefits that exceed Service Contract Act minimum benefits and so in some cases the benefits that are being required by Service Contract Act are pretty poor in many cases, and so we as -- I think I could probably speak for all the gentlemen at the table -- exceed Service Contract Act as far as benefits that we pay the wage grade employees.

MR. WALKER: I think the other thing you have to be careful of is any time you're doing these comparisons is "what's the appropriate comparison? Is it total compensation or do you bill it component by component?" Presumably even if you, Mr. Delane, even if for example there was a requirement that said that for all contracts that were subject to A-76 competition that you must maintain a comparable total compensation package, just for discussion purposes post award, then presumably what would happen after that at a minimum there might be a difference in determining on what basis future increases might be given and whether or not those future increases were going to be given based upon skills,

knowledge, and performance or whether they were going to be given based upon other factors that otherwise might occur under the normal civil service system, but it's interesting to hear some of the different options.

Did you have your hand up, Stan?

MR. SOLOWAY: I just want to follow up on that, Dave, and maybe ask Mr. Lombardi, since your company does the full scope of work, a lot of the issues with the Service Contract Act that we're talking about at the wage grade level and some of the issues Dave is raising. In your company in the higher end technology work that you do, does the Service Contract Act come into play? Is it a ceiling? Is it -- what's the -- when you get up into those areas?

MR. LOMBARDI: In the IT or the high tech -- we can use those terms here -- world there's a different set of dynamics in play completely. In that case, the government is going to the private sector to provide improvements in infrastructure and best practices of the commercial sector, and the technology is moving very rapidly as everybody knows.

So, no. The answer directly, Stan, is that on a general basis the SCA is not invoked in the contracting. What is the fair market value of talented people? My son who was a programmer three years out of college makes more than Secretary Rumsfeld, so what's equitable I guess is really a -- it has to be taken on a field by field basis.

So it's not -- I think in the high tech area the government is seeking private sector and only private sector input.

MR. WALKER: You've been very helpful as well as the other panels. We appreciate your time, and it looks like we're actually about ten minutes ahead of schedule, so if you have anything else that you would like to prepare for the record and submit for the record please feel free to do so.

If we can let's move to the representatives from Guam who've come from a long way.

(Pause.)

MR. WALKER: I'd like to thank both of you for coming from quite a distance in order to present before the Panel your thoughts with regard to A-76 experiences in Guam. I guess if it's all right, I'll just end up going in the order that it's listed here, if that's all right.

Senator Camacho, I believe that you're listed first.

I look forward to hearing your summary statement. And again, everything that you have will go into the record so hopefully we'll have some time to interchange.

SENATOR CAMACHO: Thank you very much, Mr. Walker. A very good afternoon. I am Senator Felix Camacho from the Guam Legislature.

Let me express my thanks to the Commercial Activities Panel for inviting me here to present testimony today on Guam's

experience with the A-76 process, which can only be described as disastrous to our economy and our community. I would also like to apologize for the absence of the Guam Chamber of Commerce. They were invited also, but were not able to send a representative.

Guam is more than 6,000 miles from the continental US, just west of the International Dateline, and it's literally where America's day begins. It is the gateway to and from Asia, and since World War II has been the front line of America's defenses in the Pacific. And, unlike other US communities, the 212 square miles of our island cannot support a large population or a diverse economy.

Our economy sustains the infrastructure and services necessary to both the military and our people but could not do so without the support of the military, and I believe what is good for Guam is good for national defense and for the nation.

As the military began downsizing at the conclusion of the Cold War, Guam was not immune. Many facilities and other units were shut down during the 1995 BRAC ground, but as late as 1997 Guam was exempted from A-76 studies because of its geographic isolation, unique economic situation, and its strategic importance to national security. Nonetheless, the largest-ever outsourcing study began with the Navy on Guam in 1997.

To me, A-76 equates to a loss of jobs. Its implementation followed on the heels of major base closures, the onset of the Asian economic crisis, and an 83 percent drop in

tourist arrivals from Korea, following the crash of a Korean Airlines jet and the destruction from Super typhoon Paka, all of which contributed to economic catastrophe for Guam.

The Guam Chamber of Commerce and many business leaders initially welcomed the outsourcing of civil service jobs on our island. They expected that small business owners like themselves would at least get a share of the pie. But instead, corporate giants such as Raytheon and seven major off-island subcontractors have benefited.

In reality, only three local companies were awarded subcontracts. One that later lost its contract and two that only do janitorial and landscaping work. Guam's local small businesses have not benefited at all from outsourcing. The contracts and any profits have been directed off-island with the best jobs going to non-Guam residents brought in to fill the positions of civil service employees that were driven out.

The contractor also announced it would replace 1,200 civil service workers with around a thousand local workers. In reality, 1,410 civil service workers with an estimated average pay between \$30- and \$40,000 representing 35 percent of the households able to afford a home were eventually displaced. The contractor actually hired less than 600 local workers, virtually all at low wages, and only a handful of local contractors ever received subcontracts.

The loss of a ready, hardworking, skilled, and loyal

work force has meant more than just a crippling brain drain to our island. Potentially, it could leave a strategic asset of the United States without the skilled workers necessary in an international crisis or conflict in the Pacific Rim.

A-76 has had a shameful impact on our people. Since the A-76 process began on Guam, unemployment has increased from 9 percent to a recent high of 17 percent. Displaced civil service employees have been forced to leave the island to seek opportunities elsewhere, or give up the benefits they have spent their lives working to build. We're an island. We simply can't jump in a car and drive across the state lines and seek a job elsewhere. They've had to leave the island.

And so, the flight of our people from Guam and the loss of jobs that paid a living wage have caused the local real estate market to collapse in the past four years. This has led to a dramatic rise in foreclosures on our island to record high levels, and the cumulative effect of rising unemployment, the drop in the housing market, and foreclosure rate has radically diminished the tax base of the island. We're going through our budget process right now, and the total government revenues for this fiscal year are down 20 percent.

This financial shortfall, I believe, undermines our ability to fund much-needed upgrades for water, power, roads, public safety, housing, telephone, communications, and more.

Guam's importance goes beyond our strategic

geographic location. Our island is home to the largest fresh and uncontaminated groundwater aquifer in the western Pacific, the largest deep water seaport, and a community of loyal American citizens that supports the expanding US military presence. All of these are now endangered by a devastated economy on our island.

Oahu Congressman Neil Abercrombie called the reversal of decisions to close Schoefield Barracks in Pearl Harbor, a quote, victory for common sense and efficiency and loyalty, unquote. It recognized the intangibles that must be considered for national security. Every factor that makes Hawaii a bad place for outsourcing is doubly true for Guam, and today our people ask for the same things we sought back then: the reinstatement of exemptions for Guam from further A-76 actions.

I further request that this Panel recognize that on Guam the A-76 experiment has gone awry. The dollars that are spent -- or that are saved will not even be half of the cost of rebuilding the infrastructure in place on Guam in the event of military need. Outsourcing on Guam has been a tragic mistake. Families have been torn apart. People have been put out of work.

Our people's investments have been made worthless and our local government can no longer fully fund the infrastructure relied on by both our people and the US military community. Something has to be done before it is too late.

Again, I want to thank you and this distinguished Panel for your willingness to hear of Guam's experience with the

A-76 process. I'm truly honored to be here today, and I renew my invitation for members of this Panel to visit Guam some time in the future and see first hand the effects outsourcing has had on our island, our economy, and our people.

Thank you very much.

MR. WALKER: Thank you, Senator Camacho.

Mr. Cruz, please, we look forward to hearing from you.

MR. CRUZ: Good afternoon, Mr. Chairman, and members of the Panel. My name is Manny Cruz, and I am the president of Local 1689 of the American Federation of Government Employees on Guam.

Until 1999, our bargaining unit members provided most of the services at the naval installation on Guam better known as Big Navy. From our perspective I want to say that not only have the outsourcing decisions of the Navy created short-term deleterious effects on our country's defense preparedness and viability, but the long-term implications of these decisions has severely damaged our island economy.

Guam's isolated yet strategically located geography in the Pacific makes its economy particularly ill-suited for outsourcing activities. The impact of outsourcing in Guam has been all around negative on the service afforded the Navy and its customers, the overall economic impact on the community, and particularly the Navy sponsored brain drain of hundreds of skilled

and experienced employees.

Guam's story with the DOD outsourcing efforts began with the fiscal year 1995 round of military closures under BRAC. For whatever reasons, the Navy was determined to reduce and replace the federal employees under the guise of budgetary constraints. At the same time the employees were given every understanding that the A-76 process and requirements would be good and fair and would protect the viability of the Navy base, the impact on the local economy and its many small businesses.

You can imagine our deep disappointment in learning that the A-76 contract was awarded to Raytheon Technical Services at such a low bid, and worse, that many of the requirements of the A-76 process were either circumvented or ignored.

When Raytheon assumed the contract, Guam experienced job losses of unique proportions. A majority of the workers were forced into early retirement or forced to leave the island to continue their federal careers elsewhere. Approximately 1,500 workers and their families had to either rent or sell their homes and leave the island. This exodus of our most experienced and skilled workers represents a Navy sponsored brain-drain that the Navy has regretted since.

It also resulted in a depressed real estate market since no one was renting nor buying homes on the island, and in turn, the local tax base of the local government suffered.

There are many other factors that I want the Panel to

consider regarding the A-76 process as it was applied to Guam. The seven subcontractors hired by Raytheon had not done any prior business on Guam. They had no local work force of note. Any subcontracting work to local businesses has been kept to a minimum. As the winning contractor, Raytheon offered a bid at cost far below any other bidders, including the in-house MEO.

Since the award of the contract, many of the services that were to have been included in the bid were not factored into its offer. Consequently, there has been contract creep that has slowly but consistently increased the cost of the original bid to levels on parity with the other bid offers.

The performance reviews conducted by the Navy for the first eight months of the contract have provided Raytheon with unsatisfactory monetary awards due in large part by the inability to access qualified and skilled local work force. Also, there were labor and low morale problems on the part of the local work force who continued with Raytheon but are working at reduced wages and without full-time employment.

Under the terms of the Service Contract Act, many of the current wages and benefits set by the US Department of Labor are between 30 percent to 50 percent lower than federal civil service wages and benefits. Just prior to the implementation of the A-76 study, there were 1,894 federal and civilian employees at the Navy base. Today there are only 484 so-called residual work force.

There were other A-76 procedures and requirements that were seriously ignored in the Guam study. One was the requirement in Public Law 105-261, section 2461 that required the secretary of defense to submit to Congress a report that shows the economic effect on employees and the potential economic effect on the local community.

Section 15A of the fiscal year 1997 SBA Reauthorization Act requires federal agencies to consider the effects on small business when requirements currently being performed by small businesses are considered for consolidation. Agencies are to avoid unnecessary and unjustified bundling of contract requirements that precluded small businesses, particularly in procurements as prime contractors.

Starting in the early 1980s, a NAVFAC and PACDIV fact-finding study on Guam resulted in exempting the territory of Guam from the previous provisions of OMB Circular A-76 due to the inability of the local private sector to provide adequate competition in the contracting arena. The determination of the Navy to reduce and to outsource the federal work force on Guam was evident in the following areas of taking advantage of Guam's uniqueness as an island community.

As a result of the base closures of several Navy activities in the 1993 and 1995 BRAC, the Navy on Guam was directed to consolidate and regionalize the remaining facilities under Big Navy. Unfortunately, the consolidation and

regionalization efforts were rushed prior to completion and allowed the A-76 process to move forward instead. This was later found by the Office of Naval Inspector General to be inappropriate.

Guam was selected to be a major model base for the largest BOS [Base Operations and Support] contract in the Navy together with the Navy base in Pensacola, Florida. Even though Pensacola managed to get a waiver in its A-76 study, Guam study was not so lucky even though there were very similar difficulties in regionalization.

Guam then became the main base for BOS contracting experiments under this so-called outcome-oriented contracting approach, and took the lead to make it work. Despite the island's inability to meet the requirements of the effort, new initiatives were introduced to assure success.

From the onset of the A-76 study the Navy was suspected of wage-busting. With all the federal constraints in grade and wage determination any development of the in-house MEO will be a major uphill battle and a no-win situation, and to make matters worse it was at this time that the policy letter 78-2 of the Office of Federal Procurement Policy was conveniently canceled.

For all intent and purposes then, the net effect of the A-76 process on Guam was to engage in wage-busting combined with the outcome-oriented approach that the Navy wanted to pursue-

-it was only natural that Guam and its local economic base would suffer. Indeed, that is exactly what is happening. The reason that you the Panel should be concerned and ultimately why all the military services should be concerned, is the impact these parties have on the American taxpayer and the military readiness.

The hoped-for cost savings anticipated by the A-76 process are proving to be illusory. The low bid by Raytheon is steadily being eroded by contract creep and its inability to enjoy the incentive reward payments is indicative of some of the problems inherent in this approach. How can a Fortune 500 company with all its resources and expertise not perform well?

In conclusion, I want to thank the General Accounting Office and the Panel for this opportunity to present and discuss the impact that the outsourcing decision exercised through the A-76 process has had on the island of Guam. By this forum, hopefully, the message of the plight of the thousands of federal employees can finally be heard.

Thank you, and I will now answer any questions you may ask.

MR. WALKER: Thank you, Mr. Cruz.

Open it up to the Panel. Frank.

MR. CAMM: Thank you very much. It sounds like Guam is obviously having a very hard time economically. It sounds like many things have happened over the last decade, and this A-76 study hasn't helped.

As we try to sort out how A-76 might have affected the broader picture in Guam maybe you can help me so I understand what's happened. What I hear you saying is that when Raytheon won, Raytheon reduced the wages down to the level of the wages authorized in the Service Contract Act, but when those wages fell to those authorized levels the government employees on Guam rejected the opportunity to work for Raytheon and went for government jobs in other locations, and then Raytheon was required to bring in workers from elsewhere who were willing to work at those authorized wage levels. Is that what's occurred, just so I understand what happened here?

MR. CRUZ: Partly correct. What happened is that the federal employees that were impacted given the right of first refusal decided to either take their early retirement and follow the priority placement program elsewhere, but those who stayed back even though they were working for Raytheon at low wages and reduced hours, they waited to get their call for the priority placement program.

Raytheon at no time brought any employees into the island, because they could not afford it. They had workers in Kwajalein at the time, but they cannot afford to bring any of their workers, rather than their managers. But other than that, they have no ready work force, so most of the workers that they have hired came from off the streets.

SENATOR CAMACHO: I'd also like to add that as far as

the workers that were displaced many did not have much of an opportunity to work for our local government of Guam simply because there are not too many vacancies, and those who maybe had the skills to work in the private sector outside of the Raytheon contract had a very difficult time again. As I've indicated, unemployment is upwards of 15 to 17 percent at this point in time.

MR. CAMM: So there was 15 to 17 percent unemployment in Guam, but Raytheon is unable to find people locally to fill these positions. Is that because the skills don't match or what? I don't understand.

MR. CRUZ: The skills is the problem. Like I said, the employees that were laid off or are waiting for work, a lot of them are from the Micronesian islands, and they lack the skills to perform this type of work. The workers that were displaced were workers that became journeymen through the Navy programs. They were well-trained and so forth, but because of their careers they wanted to continue those careers because they cannot afford to retire because of the penalty for early retirement --

MR. CAMM: Right.

MR. CRUZ: -- so they chose to leave the island rather than work for Raytheon.

MR. CAMM: Okay. And you also mentioned that many of the people who continued to work for Raytheon worked at reduced time. They were not working full time. How did that come about?

MR. CRUZ: This was part of the offering -- the so-

called innovation that they wanted to introduce to save money for the Navy. They decided to offer 32 hours a week as full time, and any additional eight hours would only be used for emergency purposes, but they will not be overtime.

Now, a question was raised to Raytheon -- and it's part of their record -- what would happen if the employees will not accept reduced wages and reduced hours, and the answer they gave -- and this is on their record -- is that "they have no choice but to work for us." And the thing that really troubled us is that they were blaming the Navy for the priority placement program. How can a company like that not know that federal employees have the option to go elsewhere under the priority placement program?

MR. CAMM: Was the consideration of how the work force would be filled by a contractor addressed explicitly in the A-76 decision? Was that considered as a factor in the choice of the source?

MR. CRUZ: Yes.

MR. CAMM: And how was that addressed in the choice --

MR. CRUZ: It was in the RFP, the request for proposal. That was included in there, that they must give our employees that right of first refusal.

MR. CAMM: I guess I'm asking for something further. Did the RFP also say that a private source would have to have a

plan that explained how they would get the employees who would work under these conditions? Was that in the RFP?

MR. CRUZ: No. That was in the RFP -- it was in the management plan which they refused to show to anybody.

MR. CAMM: I guess what I'm trying to get a handle on is did the source selection authority use that part of the management plan to decide on the source, or was that not considered in this process?

MR. CRUZ: That was the question that we raised when we did the appeal, that the source selection board should have known that this proposal would not work for Guam. Why this whole thing was accepted in such a way is one of the things that we could not understand.

MR. CAMM: And what was the result of that? What came out of that?

MR. CRUZ: They went ahead and awarded the contract.

MR. CAMM: The reason I'm asking is this has happened in the continental United States as well; where it was explicitly disallowed from the source selection process, and as a result when the decision came in, the contractor was not able to hire enough people to do the work, and we had a problem like this across the border here in Oklahoma.

So it's happened before. I'm just trying to figure out whether we learned something from that before we went to Guam and whether we've made the same mistake again. But what I'm after

is in the source selection, did we have an explicit arrangement to have a plan for hiring the private employees or did we just forget to put that in?

MR. CRUZ: Well, we have no privy to the -- what happened at the source selection.

MR. CAMM: It would be interesting to talk to the Navy about that and find out.

MR. WALKER: It sounds like even if they did have a plan it obviously was flawed.

MR. CAMM: I'm trying to figure out what the lesson is to learn from this.

MR. WALKER: Right.

Stan.

MR. SOLOWAY: Actually, I think Frank's question and, Dave, your comment raises something we might want to do, and that is there have been a number of interesting issues laid out by Senator Camacho and Mr. Cruz. It might be worth asking the Navy and perhaps even Raytheon to respond to give us some information as to how the RFP was structured, what plan they were supposed to deliver and so forth, and how some of these problems emerged.

Mr. Cruz, I have a question for you. Senator Camacho made the comment in his testimony that the Raytheon bid was the low bid, and it was even lower than the MEO. My understanding was the MEO was the second lowest. Is that correct?

MR. CRUZ: No, sir.

MR. SOLOWAY: The MEO was about 40 some odd percent reduction from the baseline. Am I off here?

MR. CRUZ: No. They used the 30 percent benchmark in order for us to win. This is what all the industry people were telling us, that if we can lower our costs 30 percent we have a good chance in winning the contract, but this did not happen.

MR. SOLOWAY: Was the MEO -- did it reflect a 30 percent or greater reduction?

MR. CRUZ: Much -- you mean the difference between --

MR. SOLOWAY: No. When the MEO was opened what kind -- let's assume a baseline of ten. Where was the MEO? Do you follow what I'm saying in terms of the reduction in costs --

MR. CRUZ: My understanding is that we were on target but the difference was so great, \$253 million difference --

MR. SOLOWAY: That part I understand, but the MEO itself reflected a 30 plus percent reduction --

MR. CRUZ: Yes.

MR. SOLOWAY: -- from the baseline.

MR. CRUZ: Yes.

MR. SOLOWAY: Correct?

MR. CRUZ: Yes.

MR. SOLOWAY: And Raytheon then must have been 50 some odd percent or whatever it was, but just to understand something, how many people did that represent? When you developed the MEO how much of a reduction in work force did you contemplate

was doable and what would have happened to those folks that were in that 30 percent?

MR. CRUZ: What happened -- and this is again a flaw in the process -- is that in dealing with federal wages and benefits you can only do so much because of the law. In other words, you would like to do innovative ways to cut wages and so forth, but you cannot do that under federal regulation, and even if we do -- let's say decide to lower other grades down to, let's say, GS-8 or WG-8, when the time comes for the RIF to go -- that's if the MEO wins and the RIF comes into play, whatever savings we may have, you know, you may have a GS-12 replacing a GS-8, so in other words, it's against us; I mean, there's no way we can win.

MR. SOLOWAY: So you didn't do -- in the MEO itself you didn't do any regrading of positions?

MR. CRUZ: They tried to do this under the technical balancing act, but not knowing what the bid was they went through that process. It's almost like an exercise in futility. They went through it and tried to lower as much as they could under the new -- the procedure, but under the technical balancing you can try and meet or beat the contractor's offer at the time, but little did we know the costs when they opened up the --

MR. SOLOWAY: And the contract was a fixed price. Correct?

MR. CRUZ: It was a fixed price.

MR. WALKER: Mark.

MR. ROBBINS: This may be an unfair question, gentlemen. Do either of you have any way of knowing if Mr. Parres or the Guam Chamber of Commerce share your low opinion of how the A-76 process was applied in this particular case in Guam?

SENATOR CAMACHO: In discussions with the Chamber of Commerce initially they did express a desire for A-76 and the process to occur. Again, their thought was that as subcontractors they could benefit from this by increasing their activity and, of course, benefiting from jobs or work that can be had on base.

Unfortunately, I think as events have unfolded there is -- I believe under SBA, this 8A program which allows certain minority companies the advantage -- certain advantages in bidding.

A majority of subcontractors I've noticed on Guam for jobs on base, whether it be on the Air Force or Navy side, are normally granted to these companies that fall under SBA 8A program. There's no way local companies can even compete against them.

So they've realized that over time what they thought would be a boon to them and a benefit to local businesses had not panned out, and they realized that what they thought was something they could support really wasn't there. So again, initially they were in support of this concept. The reality of it is that they realized it didn't benefit them at all.

MR. WALKER: Bobby and then Bob.

MR. HARNAGE: Senator Camacho, you mentioned about the brain drain. Could you explain that a little bit more?

SENATOR CAMACHO: Yes, sir. There's about -- again, we have a figure of roughly 1,400 or so civil service workers that were displaced. Many of these did not -- these individuals to protect their retirement and all the investments they made into their careers had the right of first refusal from what I understand, and of course they opted to relocate off island, and they took other positions.

In fact, there's a person that I met from Guam originally -- she's here with us today, Cathy Cooper -- that was working with a ship repair facility and is now working here in the States. That's an example of a person who wants to prolong their career but has left for other opportunities and to stay within the system, so we've had skilled workers that have left. They had -- it was an educated work force, institutional knowledge, middle class residents of Guam that were steady contributors to our economy, and they along with their families, those that could afford to bring their families eventually down the line, have all left.

And so that is a brain drain that we've experienced again with skilled, steady workers that were a big contributor to our economy, and that's the brain drain that we've experienced.

Along those lines, we do lose many of our talented people to greater opportunities in the US mainland, and the economy we're struggling with right now has caused many to leave, but this certainly exaggerated the entire situation.

MR. HARNAGE: Incidentally, I did stop over in Guam one time. I was on a military transport. The only time I ever flew backwards. It was a refueling stop on the way to the Philippine Islands.

Mr. Cruz -- I'd like to go back some day -- you were the employees' representative during this process. What role did you play in the study itself?

MR. CRUZ: From the beginning of this whole process when the CNO announced that so many positions would be studied under the A-76, I studied this whole thing. I went to our national office. I pleaded with everybody that this is not going to be good for Guam. We talked to other activities that went through this process, but all of this fell on deaf ears.

I went to every channel I could get to. I walked the halls of Congress. And you know, Bobby, I did a lot of walking from the beginning of this whole study. I mention I resurrected the exemption of the A-76 for Guam, but again, the Navy was not -- they were not listening.

MR. HARNAGE: But did you play a role in the study itself? Were you involved?

MR. CRUZ: That was also the problem in the -- and one of the flaws of the A-76, that the employees' representative will participate in the development and establishment of the PWS MEO, and we were denied this because of proprietary --

MR. HARNAGE: When you mentioned the savings of the

MEO 30 percent or plus, that wasn't just a manpower savings, was it? It doesn't just equate to positions.

MR. CRUZ: We were looking at strictly manpower.

MR. HARNAGE: Your testimony seemed to imply that the contractor is not performing in accordance with the contract. Is that what you're saying and do you know what the enforcement proceedings are?

MR. CRUZ: My understanding with the local military commands is that there is no enforcement procedure in the contract, and for that they cannot do anything if the contractor fails. In other words, the contractor can only say, "Okay, you caught me. What are you going to do about it, fire me?" and that would be the typical arrogant answer that the contractor would give to the military.

And that's one of the things that is really troublesome, because the residual workers that are still part of my unit, they do the quality assurance for performance and so forth, and they will be told in uncertain terms that 'you must be a team player.' We must give this contractor a chance to improve and to get those monetary awards, even though they may be failing.

So in other words, they were told even to fudge the numbers to show that they are performing well so they can get the so-called monetary performance awards.

And this is all coming from the top of the Navy, that they must make this contract work, and if anybody does not play

along their careers are going to be ended. And of course, here we have again the situation where there is fear in the work place as far as our workers are concerned, so despite the fact that the contractor is failing, the Navy is committed to make it work because of the matter of saving face.

Even the contractor has mentioned that they're willing to walk out of this, but they have put in so much money they have been swimming in red ink because of the fixed price. There's a proposal for a major mod. In fact, they sent about 14 lawyers down there to do the negotiation. All of these things are happening, so in other words if the contractor's really performing well we have no problems with that.

But right now they're in the midst of getting another evaluation and whether they're going to get the award as needed, we don't know. So for the duration of the contract we're looking at \$2 million available for this financial award program, and for the past ten months they were only able to earn about \$200,000.

MR. WALKER: Bob.

MR. TOBIAS: Thank you very much for this testimony.

I really appreciate it. I think it brings home the fact that just because a contract is outsourced doesn't guarantee success. It doesn't guarantee that the goals will be achieved.

I'm interested -- you also stated, Mr. Cruz, that they've never received a favorable evaluation and that there had been increases in the amount of money that the contractor is being

paid over time, in other words, the bid price was not the actual price. Do you have any hard numbers of how much that's increased over time?

MR. CRUZ: I'm not privy to that information.

MR. TOBIAS: Okay.

MR. CRUZ: I'm sorry.

MR. WALKER: Joe.

MR. SIKES: Just to follow up on that, Mr. Cruz, do you think it's due to things that would have happened any way? In other words, you talk about constantly making the price going up to what the other bids were. Is some of that due to the fact that wage rates have changed or the scope of the contract was changed by the Navy, or do you think it's just because of non-performance by the contractor?

MR. CRUZ: It's just the performance of the contractor, the fact that the workers that they have at present are not able to do the work, and also the fact that these workers right now -- because of the reduced wages -- their morale is not that great, so in that respect you can see the contract not going very well.

MR. SIKES: I'll make sure the Panel gets some more information on this.

MR. SOLOWAY: I think we're dealing here with a specific case that requires us to get some -- I think Bob's question was a fair question and we ought to perhaps pose that to

the Navy as well and the folks responsible.

MR. WALKER: I think it's fair to say that any time you end up having one of these competitions there can be adverse collateral impacts on the local economy. Obviously, in the case of Guam and given its geographic proximity, given the percentage of your economy that's represented by US government dollars, it can even be and has been evidently much greater than otherwise would be the case.

One question that I would have is you mentioned about the fact that when the MEO was constructed that it was alleged -- I thought I heard somebody say by the contractors who were going to be competing maybe, that if you ended up saving up to 30 percent that you should be successful. What I inferred from what you said was is, therefore, there was an effort to try to create an MEO that hit that 30 percent number, when in reality that was driving to a number rather than necessarily driving to an MEO, and when it turned out what happened was that the outside contractors, rightly or wrongly, came in and came up with an organization that they may not be delivering on, but provided a lot more savings than that 30 percent.

Is that a fair characterization of what happened?

MR. CRUZ: It's a fair characterization and the fact also is that we raised this issue that because there's nobody with that experience in this major BOS contract, because we never got the training. We were never trained. They told us that even the

employees will be trained how to do the PWS, how to do the MEO. They even hired KPMG to do the MEO for us, but they fired them. They never completed their work.

MR. WALKER: Let's just assume for purposes of discussion that the 30 percent number was the right number. In this case I'm not sure that it was because you were driving to that number if you will, and we've all heard testimony before this Panel about trying to drive to arbitrary numbers can be problematic in a variety of different ways.

MR. SOLOWAY: Just for clarity, I think he said they said done a benchmarking study. Didn't somebody say that they had done a benchmarking study? I think it was the competitors that came up with the 30 percent.

MR. CRUZ: No. The Navy was telling us --

MR. SOLOWAY: The Navy.

MR. WALKER: Well -- but still. Let's just assume that the 30 percent number was correct. Obviously, there's several ways you can come at this, one of which you're proposing is you should be exempt from A-76 all together, and obviously that would take away the potential adverse collateral impacts that could occur on Guam. But then there are other communities that obviously have adverse collateral impacts too, although obviously your geographic proximity is different, and we understand all that, and some of the national security issues associated with the Asian region obviously are only going to increase, not decrease.

But what about this 30 percent? If you assume that the 30 percent was real, it was really an opportunity for 30 percent efficiency. Then how could that be achieved in some manner other than A-76? In other words, if you were exempted from A-76 but there was 30 percent opportunity for efficiency on the table that was real, how do we make that happen, because then the debate could be, 'should you allow that 30 percent to stay on the table? Is that fair from a broader standpoint of the taxpayers as a whole?' Any thoughts you have -- you may not have an answer today, and I understand that, but any thought you might have on that would be appreciated.

MR. CRUZ: We understood this as employees, that this is how we're going to achieve -- they gave us a manual on how to win it. They gave us all types of processes and procedures how we're going to win it, and the employees are willing to take that chance so long as some of them will remain on the job.

MR. WALKER: Right. But I guess my point is if for some reason you were exempted from A-76 so therefore there wouldn't be a public-private competition --

MR. CRUZ: Right.

MR. WALKER: -- let's assume there were other facilities, whether they be in Guam or elsewhere, where there were opportunities for savings like this 30 percent how is that going to be achieved absent competition? In other words, what needs to be done in order to try to help assure that that will be achieved

but possibly working in a more strategic fashion, labor and management working together with certain deadlines or whatever in order to try to achieve those types of savings absent a competitive process, because many believe that competition is a means to an end, not necessarily the end of itself. The means to an end meaning forcing more economical, efficient, and effective enterprise, rightly or wrongly.

I'm not saying I agree or disagree, but I think there are a fair number of people that believe that.

MR. CRUZ: We went through this process under the business case analysis. The bases went through this in reengineering-type procedures. We went through all of this. We cut our numbers down and so forth. We did all of this, and then lo and behold the bottom fell.

MR. WALKER: But I guess my question is would you have done that if there had not been an A-76 competition? I guess a different way to say it is if A-76 didn't exist and there was a desire to try to maximize the economy, efficiency, and effectiveness of the installation at Guam and elsewhere, what would encourage that to happen? What type of conditions or requirements or assistance, tools, and methodologies might be necessary? Think about it. I'm not expecting you to give me an answer right now. It's similar to a question that I've asked the other Panelists.

SENATOR CAMACHO: Obviously that is a question --

that is really the main goal I think of this entire process. It seems that initially, with A-76 from what I've read, cost savings was the driving and primary factor. But as I understand it, cost savings should be the side benefit to increased efficiency. But your question is 'how do you initiate that cost savings and efficiency in operations of government services without having competition?'

MR. WALKER: Right.

SENATOR CAMACHO: It's got to be something internal and it's something that drives that, and that is a very good question.

MR. WALKER: And as somebody said earlier, this is not really just a governmental issue. It's really an issue when you're dealing with a monopolistic enterprise. When you have a monopoly, whether you be in the private sector or the public sector, there's a tendency to be insulated from competitive market forces, and so the question is how can you create incentives to be able to look at some of these things when there aren't otherwise market forces that force you to do it?

SENATOR CAMACHO: If I may say in our government right now we're going through our budget process in coming up with a budget digest and looking at our projected revenues. That's what drives it. We basically said, Governor, you can't spend as you did before. We're reducing your budget by \$91 million. You're going to get your directorate to sit with us and go through

your budget and find the cuts necessary to run your agency more effective.

So the budget process and the bottom line figure that they can work with is what we use to drive the process in getting these people to be more creative and more efficient in their jobs, so that's how we're doing it, at least in our area. It could be something that could apply too. If you've got an open ended budget and lots of money to burn, you're going to burn it.

MR. WALKER: I understand.

Stan.

MR. SOLOWAY: Far be it for me to allow us to stay on schedule. You've done so well on keeping us on schedule, but I've got one question.

Mr. Cruz, something you said just struck me. In the current structure with Raytheon operating and the 484 employees there, did you say that your folks are performing the quality assurance function, and that these are folks who were previously employed or moved into quality assurance after the outsourcing? Does that strike you as a bit of a conflict of interest given the contentious relationship here that obviously started from day one of this process?

MR. CRUZ: Again, following the requirements of the law that you need to have these people to oversee the performance of the contractor, I guess this is the reason why they were kept back.

MR. SOLOWAY: I'm not questioning the need to have some oversight. That's -- there's an interesting question of, if I'm involved in a competition with -- there was a private-private competition where one of the losing competitors was later actually hired as a quality assurance contractor, and it created all kinds of friction because they were a losing competitor, and I see a little bit of that same conflict here. It's just something that struck me.

MR. CRUZ: One of the things that we -- even among those workers -- and I'm speaking about conflict -- the question that they raised with me every time we'd talk about it, that they're supposed to go out and do this kind of work to try and keep the contractor on the ball to perform whatever they need to perform. They have this feeling about getting back at them in a sense, but these people -- they know their jobs, and when they go out they have their list to perform and so forth, and they do it.

And they will find things and they will try to help them out -- perform better, but somehow because of the workers not being skillful enough they still cannot do it.

MR. WALKER: I want to thank both of you for traveling the thousands of miles that you have to be with us, and I can assure you we'll seriously consider what you and everybody else have had to say.

We're now going to take a 15 minute break. Let's see if we can start back at five until three until instead of 3:00. I

think it's now twenty till. I know there's several of us that have to leave at 4:00, so we want to hear as many people as we can.

(Whereupon, a short recess was taken.)

MR. WALKER: We'll start with the next panel, who's going to address us on technology and A-76 issues.

Gentlemen, welcome. I'd like to remind you gentlemen that what we want to try to do is maximize the amount of interaction that we have, and therefore first everything that you've submitted in advance is already in the record. Secondly, anything you want to add after this will go into the record. We're going to keep the record open at least for a couple of weeks after this hearing. And what I would ask if you can is to try to summarize and hit the highlights so we can end up having more interaction of what your personal statements are.

And I guess we'll go in the order that we're listed here. Mr. Harris, I guess you're up first.

MR. HARRIS: Thank you, Mr. Chairman, and members of the Panel. Thanks for the opportunity to appear before you this afternoon to talk about Office of Management and Budget Circular A-76.

I am Roland Harris, the IBM global services general manager responsible for business development and contract performance of the public sector in the Americas.

All government organizations are facing both external

and internal forces that make change inevitable. External forces such as new work force demographics, changing expectations about quality and productivity and customer satisfaction, and new technologies are dramatically affecting the operating environment in organizations worldwide.

Internally, financial constraints, the requirement to do more with less, cross-functional teams and empowered workers all affect organizations' abilities to compete and survive. Citizens' needs and expectations have changed. Citizens are asking for better, faster, and more economical services. The private sector has recognized similar customer needs and expectations, and in order to survive in the global competition has been forced to make customer satisfaction a first priority in their missions.

Public organizations have started to recognize this, but at a much slower pace than the private sector. The US government has a mandate to transform its business processes utilizing the state of the art internet e-business technologies available in today's marketplace. This transformation is necessary in order to increase the efficiency of the government's information technology infrastructure to enable it to provide better, faster services to its customers: US citizens, businesses, and other governments.

Migrating to e-business technologies and processes is extraordinarily complex. Make no mistake about that. However,

the technology exists, is proven, and has been successfully utilized by the private sector to achieve for its requirements precisely what the government now must accomplish for itself.

Unfortunately, however, government agencies, in their attempts to engage the private sector to facilitate this highly complex technology-driven transformation, must first participate in the expensive, lengthy, time consuming, and often arbitrary process required by OMB Circular A-76 to determine if the private sector should be utilized at all. Time and time again, private sector companies have turned to the IT industry to accomplish the critical transformation required in their IT infrastructure and processes rather than attempt to do it themselves.

This is a recognition that their core competency lies not in IT products and skills. They're better served by turning that transformation over to the IT sector, which has proven its ability in this arena. Indeed, A-76 might be appropriate for those service contracts opportunities where best value equates to low cost. However, this model is clearly not descriptive of how to measure best value in IT infrastructure and applications necessary to transform agency processes once viewed as simply a tool for reducing IT costs, contracting out, running the gamut from desktop management to systems integration all the way to total outsourcing is today evolving to accomplish strategically focused comprehensive management of critical business processes including the transformation to e-government.

As in the private sector, the business need of the government in providing better service to its citizens while increasing the efficiency of its IT infrastructure has the following characteristics: the need to accelerate deliver of value, rich offerings, and services; the need to strengthen links with partners, suppliers, and customers; the need to close skill and knowledge gaps; and the need to speed e-business initiatives.

I believe there is an opportunity for the agencies to leverage the private sector's uniquely qualified capabilities to accomplish the mission at hand. By engaging the private sector the government can avoid the up-front capital investment required to accomplish these transformations.

For example, in the recently awarded Navy-Marine Corps internet contract the enormous front-end capital investment made by the vendor to provide network capability will only be recovered through monthly service payments by the Navy. On this model the government avoids paying directly for the investment. Additionally, utilization of technology refresh requirements allows the government to assure technology currency without the burden of inventory management or contract modifications.

As I stated earlier, the source selection criteria of A-76 competitions results in the selection of the low cost solution. The overriding beneficial best value impact of IT transformation however is not the initial cost of the IT services contract, but rather the overall collateral savings achieved

through increased efficiencies.

For example, the utilization of commercially available supply chain management technologies for the Army wholesale logistics modernization program should result in enormous collateral warehouse savings due to just in time delivery processes as well as greater assurance of the availability of critical supplies when required.

Additionally, the private sector has the capability to absorb, train, and utilize government employees just as it does in the private sector. IBM spends approximately \$100 million annually to keep its work force technologically current. This is required to remain competitive and is an investment, not a benefit.

Finally, I believe that the government will simply not be able to compete with the private sector in recruiting and retaining IT skills, nor do I think it should. Rather, the government would be best served by hiring a core competency of highly qualified IT professionals to acquire and manage IT services, relying on the private sector for the actual implementation of those services for all the reasons stated. To subject these critical IT transformation services to public-private competitions introduces unaffordable delays using the wrong selection criteria.

Thank you for the opportunity to speak about a most important topic.

MR. WALKER: Thank you, Mr. Harris.

Mr. Rohleder.

MR. ROHLEDER: Chairman Walker, distinguished members of the Commercial Activities Panel, thank you for inviting me today to testify on the applicability of A-76 to outsourcing transformational information technology solutions. I'm Steve Rohleder, the managing partner of the US government practice within Accenture.

Today, Accenture recommends that the Panel consider more innovative outsourcing partnerships than those elaborated in the Office of Management and Budget's Circular A-76, which we believe unnecessarily pit the government against industry in the fast-paced information technology environment.

Let me provide some brief background. In both government and industry some executives still use outsourcing as a blunt instrument to offload and wring the costs out of non-core activities, but many have moved to a much more sophisticated approach. Our most innovative clients engage in collaborative relationships with IT outsourcing partners to create high performance support operations that keep pace with industry best practices.

A few have taken the concept one step further. They are partnering not just to reengineer support processes but to drive enterprise transformation. These companies report greater savings than those 20 percent savings reported in the mid-1990s,

and they gain access to competitive skills, improved service levels, and increased ability to respond to changing business needs.

Those lessons are equally applicable to the federal government, which is seeking to transform itself from an industrial-age government to a knowledge-based information age government.

Accenture believes there are numerous reasons why the A-76 public-private competition framework is not the right one to achieve transformational outsourcing objectives. First, it does not provide a model that adequately accounts for the value of providing an agency a total solution. It does not contemplate enterprise benefits. It tends to encourage the agencies to do things just marginally different than before with fewer people. This should not be the objective of IT transformations.

Secondly, the most efficient organization process does not make sense when the existing work force does not have the right skills to transform the agency. Third, the public-private competition takes 18 to 36 months to complete, a cycle time in which a private sector organization may have already reorganized and upgraded its technology once or twice. And finally, the process places too much emphasis on cost rather than enterprise value.

Accenture believes alternatives to A-76 should be considered. Those alternatives include exempting IT outsourcing

from the A-76 process, allowing such transformation activities to be automatically eligible for an A-76 waiver, and encouraging more innovative financing arrangements such as joint ventures.

Finally, Accenture believes that the government can measure cost savings, value, and performance. In our written testimony we offer two examples of contracts where our contract fees are contingent on government receiving defined benefits.

In conclusion, if the federal government wants to transform itself into a 21st century e-government it's going to have to partner with IT private sector in new, innovative ways to achieve its goals. We believe a contentious, laborious, and painful A-76 process will not serve either government or its employees well in transforming itself.

Thank you.

MR. WALKER: Thank you very much.

Angela.

MS. STYLES: I believe underlying both of your arguments that the IT industry should be exempt from A-76 is what you present as a fact that the government can't recruit and retain quality IT workers, and that concerns me. I realize that argument is probably true in most instances, but I wonder if that means that there need to be changes made to the system in order to recruit and retain better IT people? Even at a bare minimum if we're outsourcing we need to have people in the government who understand what they're awarding and understand what they're

managing or I don't think it works well for either side.

Do you have any suggestions on how the government can better recruit and retain these people? I think you are probably the ones that know why people choose the industry instead of the government, and I'm assuming it's not just the pay, that there's some other factors going into that as well.

MR. HARRIS: it's not just the government that has a problem. It's also commercial enterprise. Literally it's very expensive to recruit and train people.

You take an IBM Global Services. We have 150,000 people worldwide. If I was trying to do it just as an independent organization I've got maybe 5- to 7,000 people available to me, but I could really tap into 150,000. So if I make the wrong choices, I can get backed up by an organization much larger than myself.

Now, if you're trying to do this as an independent organization, even a large commercial company, what you find is you don't have the backup, so I have a recruiting engine that works all the time. It's constantly trying to find people and the right kinds of skills.

I don't know how you duplicate that within a government organization. Many commercial organizations have found they can't do it, and some of them are the largest institutions in the world, like a Bank of America.

Now, from the standpoint of what would I look for if

I were you, what I find is what people tend to do in outsourcing, which is kind of overkill, is they give away their ability to make their own decisions. I wouldn't do that. What I would do is decide that I need people who understand my own business and what is it I'm trying to do with it, have the ability to manage the contractors.

So in effect, at the end of the day you can't give me the responsibility for being you, but what you can give me is the ability to run your data center, to develop applications for you for things along those lines. If you've lost the ability to really understand what it is you want to do then I don't have anybody to have a conversation with, and that becomes very ineffective.

So what I'd love to have you do is to hire much more qualified project management oriented people who understand what it is we're trying to do together and have the facility for figuring out when we have to make changes -- because things are not perfect. People don't design the perfect solution up front -- when we have to make changes how we make those changes together and that we stay on course. So better project management within the government would allow me to be more effective at what I do.

MR. ROBBINS: But I think the question was how do we hire and recruit those individuals? I understand what you're saying, that we need to have within our own shops people who can deal with you, but how do we go about getting those people?

MR. ROHLEDER: I think the government is going to -- is always going to be challenged to recruit and retain information technology professionals, and I'll tell you why. The industry moves so quickly, the people that come up through the curriculum in college -- and we're the second largest recruiter out of colleges for IT people behind the federal government, and I can tell you that the people that are coming through college, the people that are in this industry want continual challenges, and they feel throttled in certain environments, and it's not only federal government. It's state, local, any kind of government organization.

They've not dealing with the new technology. They're not keeping their skills current, and that's a major challenge to retaining people.

You can attract them in at the entry level position.

I heard some innovative, I guess, processes that the VA was doing to try to get people in. What they used as their pitch is they said, "Come in and work for us for three to four years. Don't think of it as a full-time career. Three to four years. We'll give you more responsibility than you'll ever get in the private sector. You get some technology training but you also develop other skills."

I think you have to think of things that are going to attract and motivate people to develop themselves. That's what really keeps people in the IT industry.

MR. WALKER: Right.

MR. ROHLEDER: I don't think it's -- I think salary is part of it, but I think it's the other principles.

MR. CAMM: What I heard you say, Mr. Harris, was the people who are going to oversee these contracts might not be IT experts. They would be experts in the businesses who will be using those skills, and they need to know what those businesses need in order to manage projects that include these contractors --

MR. HARRIS: Exactly.

MR. CAMM: -- people like you. Is that what --

MR. HARRIS: That's correct.

MR. CAMM: So maybe one way to ask your question -- and I may have this all wrong -- one way to ask it is to say, What is your relationship like? Once you've gotten one of these contracts in place what is your relationship like with the buyer? How long does it last? What are the terms? What is the contract -- what is the project content of one of these relationships like? And maybe knowing more about that would help us know more what skills we need in the government to oversee such a project.

MR. HARRIS: It really differs depending upon what it is you're trying to do. A facilities management or outsourcing the data center generally is a long-lived contract over maybe as much as a ten year period of time, and what we do is we build into it some things that automatically adjust price based upon

technology, so there's constantly pressure on me to respond to the fact that technology changes and other than significant changes to your environment other than a new set of applications or a desire to run on servers versus on mainframes generally that kind of contract can run for a very long period of time.

The other types are generally where customers are looking to change their environment, so sometimes what they want me to do is manage a current environment for them because they're going to put their energies into building the new one, and sometimes what they've decided is they can't do either. They really don't have the facility for developing the brand new application.

So in each case what you really have to do is cut to the chase. What is it you're trying to accomplish? Once we understand that the process of going through an A-76 kind of approach disconnects, trying to get to the real issue of what is it you want to do?

My biggest problem, especially on a commercial account, is really understanding at the board and chairman level what are you trying to accomplish, over what period of time? What's more important to you, saving money or having the most effective organization you can possibly have?

Sometimes, for example, if they're about to go out of business it's saving money, literally that. All I want to do is have you run it for me 30 percent cheaper than I run it today, and

I want to put that cash in my pocket as quickly as I possibly can.

In other cases they say, We run it just fine, Mr. Harris. What we'd like to do is we'd like to spend our time on our core skills, and our core skills don't include running a data center. So when we find ourselves chairman level, board level people having discussions about acquiring a piece of hardware we think to ourselves don't we have better places to spend our time?

So again, it goes to the issue of what is it you're trying to accomplish.

MR. CAMM: What I hear you saying is the kind of customer that you often get or that you like or maybe both is the one who comes to you and says, There's this beast called IT. I can't even run my current system as well as I think you could, much less the one that's coming, so do that for me and let me get focused. Is that --

MR. HARRIS: Exactly. The best is, I'm not quite sure what it is I want to do. Work with me.

MR. CAMM: Yes.

MR. HARRIS: Take something out of this partnership. Performance based contracts, for example, say, I'm not really sure what it is we need to do together, but what I am sure is that you have 150,000 people, and if you brought that power to the table we'd probably figure out the most effective solution for me. And if you could then tell me what that solution is and what it's going to cost and the time frame for its rollout, we may very well

develop a lasting relationship.

What I don't want you to do in most cases is purely focus on cost, put me in something that doesn't quite fit, and have me complain about the relationship for the next five or ten years. That's the worst possible scenario. To be quite honest with you, 50 percent of the outsourcing situations I refuse to engage in because when I really get down to the discussion of what it is they're trying to accomplish, they don't really know, or it's an ill-fitting suit.

So in my case because IBM really prides itself on its customer satisfaction, I would rather walk than to do a deal that doesn't fit.

MR. CAMM: So I as a buyer when coming in, I don't necessarily need to know about the specifics of the technology, but I have to be very good at communicating to you what it is I want. It may be only over a couple of years but perhaps over a very long period of time.

MR. HARRIS: Right. Application development contracts tend to run shorter periods of time. Pure facilities management outsourcing things tend to run longer, but it really depends on what it is we're building together because some application development efforts can take five or seven years or more, and some data center things are short term.

Example, two companies merging together, what we want to do is we don't want to think about this as part of the

transition. Put them together, run them for us. We almost don't care about the cost. Cost is inconsequential to what we're trying to accomplish. Two large pharmaceutical companies, for example, which I did recently, merging together to form one. All they want to do is get that off their plate.

MR. CAMM: Right.

MR. HARRIS: So again, it comes back to what are you trying to accomplish and over what period of time?

MR. ROHLEDER: I think the other quick characteristic, just to add, is an executive team that is focused on performance metrics, because that's where you can take information technology and translate that into savings against performance metrics. You see a lot of agencies that pay a lot of lip service to performance metrics and the GPRA objectives and all that.

Frankly, I think the big push ought to be to tie your information technology to improving those metrics, because at the end of the day if we're really going to appropriate money based on those that's where I think the rubber hits the road.

MR. CAMM: Thank you.

MR. WALKER: Bob.

MR. TOBIAS: Both of you suggested that the kind of technology services that you provide ought be exempt from the A-76 process, that it doesn't fit with this process, and part of your argument for that is process, and part of it is practical as I

hear it, in the sense that the government can't attract the quality of work force that you all can attract and therefore can't deliver the service that you can deliver.

Where would you draw the line or how would you draw the line to say this is appropriate for exemption and that is not?

MR. ROHLEDER: I think there's some clear activities that fall outside of the scope of the government's core competencies, if you will, and I think there is a wide range of those activities within the information technology area. I think you have to draw a line somewhere and say, These are clearly things that government is just not going to be able to support and shouldn't be supporting because of either the human capital issue or the pay issue or whatever the issue is.

That, at least, puts a box around the activities that you know are going to be outsourced. That leaves a smaller subset then to evaluate, and I think the evaluation of those has to be a collaboration between government and the private sector. I think the A-76 process encourages study in a closet if you will, and cost savings in a closet.

On our commercial accounts where we see the best-run projects we see an organization, a commercial firm come forward and say, We don't know if we want to outsource those. Let's enter into a dialog with two or three organizations out there and see if they have some ideas that will help us, and we can make a determination at that point, and it also helps the private sector

determine whether they want to compete for that or not.

So increased communication I think helps there too.

MR. TOBIAS: Thank you.

MR. WALKER: Stan.

MR. SOLOWAY: Let me follow up on that, because Bob asked a very similar question to what I was going to ask.

Steve, let me stick with you for a second. When you talk about the definition and where to draw the line that Bob was talking about, we see so much now in the private sector and increasingly in government where even activities that you wouldn't call quote, IT functions, are IT driven. The solutions are IT driven. I think that may be where Bob was going with his question, is "how do you define those?" I've seen base ops contracts where the solution was a very innovative IT solution. We have all this push to ERP in the Navy and elsewhere, DLA and so forth.

So I don't want to put words in Bob's mouth -- God help me -- but --

MR. TOBIAS: Thank you.

MR. SOLOWAY: -- but I do think there is the question of how you define what an IT solution is. When you talk about IT you're really almost talking about anything that requires some mid to higher level engineering IT kind of sophisticated requirement is almost what I hear you saying.

MR. ROHLEDER: Yes. I think you have to look at --

again, it gets back to the processes that you want to change to the business outcomes that you want.

I think I would characterize IT as an enabler. I think information technology is there to help you be more efficient. If your processes and your people aren't in place and you don't have those things operating efficiently right up front, technology's not going to help you that much, frankly, in my opinion.

So I think it does become blurred when you look at large, modernization efforts where an agency just wants to change the way they do business. Technology then becomes a component of that. And I think some modernization efforts fail because they address modernization as a technology issue and not as a transformational outsourcing or transformational change.

MR. HARRIS: To show you that the line is blurring, we're more apt to find now that it's functional management that's driving a desire to move towards outsourcing and not the CIO. In fact, the CIO if anything is fighting to retain because that's their kingdom. But what you're finding is functional managers are saying, "That's not what I do. Let me tell you what I do. Let me tell you the people that are important to what I do," and then anything else that you can sort through that's outside of that, figure out what, if anything, you're interested in.

That's really the approach that's being taken more now.

MR. SOLOWAY: Let me just ask a second question, and this is for you, Mr. Harris. Change the subject a little bit here. I heard one of your colleagues speak a few weeks ago, and I want to make sure I got the facts right, because we've heard a lot of talk from all the panels about the importance of communication and partnership, labor-management partnership, public-private partnership, and so forth, and he was, I think, describing a contract that IBM has with a company -- I probably should mention the company, but it's a large one -- where you all took over a purchasing -- complete purchasing operation for the company and the contract was a disaster, and instead of terminating or walking away you all are operating under an informal MOU and building a new contract as you go.

MR. HARRIS: Yes. It's kind of an IBM thing, but customer satisfaction is what we're all about. In the event -- sometimes what happens is we didn't understand each other in regards to what it is we -- that specific contract I'm not entirely sure I know which one you're referring to, but as a general response, sometimes we don't understand each other. We've had a conversation. We think we understand what it is you want us to do. At the end of the day we really didn't.

Now, the question is do we then turn around and walk away? There have been earlier comments that that's what vendors do. That's not what we do. My guess is that's not what Accenture does. You stick it out. I've had contracts where I could see

myself losing 100 million dollars and stuck in there, because at the end of the day my gain is not just that one contract. It's to develop a feeling in the community that we stick it out. We get our job done.

Do we have lots of interesting discussions? Yes, we do. In fact, sometimes I'll hire somebody that looks like a marriage counselor, and they'll come in and literally sit down with us and they'll help us talk through the issues that we're having with each other, and at the end of the day we'll lay in a joint plan on how we're going to fix our marriage, and we'll go forward from there.

But at the end of the day, it doesn't behoove IBM as a company to leave behind damaged relationships, so when I sign up -- that's why I walk away from 50 percent of those. If I can't figure out what it is you want to do then I know it's going to get worse from there. If I think I have a pretty good understanding then generally it does work out. Every once in a while it won't.

MR. SOLOWAY: And last question, you both talk about transformational -- IT enabling transformation and so forth, and you both felt in the commercial sector -- we've heard a lot of talk at this hearing and other hearings about the length of A-76 studies, that the really big ones take three and four years, smaller ones at least two years.

Is there any rule of thumb that we can learn from in the private sector in terms of a large company looking at a large

operation, trying to make a determination what to do, how long they spend studying it and so forth?

MR. ROHLEDER: Yes. I could use -- I could actually pull two examples from government, one from the State of Florida, one from Canada, where we did a due diligence in less than six months to come up with some agreed-upon benefits and agreed-upon service level agreements that we were all going to step up to, and in fact both of those cases our compensation was tied to being able to achieve those jointly with the agency.

On the commercial side, the larger one -- we did a very large deal in the UK for a large retailer there. It was about eight months, and we're talking --

MR. SOLOWAY: But that was your involvement? Was that for when they decided to look at the activity to when they awarded to you and actually started?

MR. ROHLEDER: The latter. From when they came to us and said, "We have this idea. We need to change our business to -- all right. You're on contract. Start today." It was about eight months.

MR. HARRIS: Mine would be on the order of somewhere around three or four months is probably the fastest I've seen for anything really significant. Usually a real outsourcing deal with heavy things going on within it is more like nine months. The worst of them generally it's about 18 months, and that's usually because the initial reaction is the customer didn't think that's

what they were going to get when they were going to outsource.
They step away from it.

The interesting thing, and the thing I would suggest to you and I've heard through some of the other testimony, is the biggest problem you have is when you start and stop, because your people find out that this is something you're thinking about doing, worry then moves through the community, and what happens is because of that worry they move away from you. Then a couple of months later they want to reengage you, so now we're starting with an open wound, and usually over an 18 month period of time they eventually get to the same decision and that is they needed to outsource it. That's probably the longest outsourcing situation that we --

MR. SOLOWAY: Do the people come with it? Do you typically take people with your outsourcing contracts?

MR. HARRIS: It really depends upon what a customer wants. Most customers early on -- it's changing now -- wanted to feel very good about what they were doing with their population, so they would insist that IBM not only keep them but generally keep them for some length of time, so a year or two years is an absolute commitment.

That's beginning to change. What people are now looking at is I want to be more effective sooner, because what they found is if some of those people weren't capable of getting the job done and I was forced by contract to keep those same

people over the top of the job then they weren't as effective, so now let me move them around within IBM, get them additional training. If they disappear from your program and they get jobs some place else do you really care? That's more the style you're beginning to see.

MR. WALKER: First let me say, unfortunately your worst-case scenario and timing, 18 months, is our best-case scenario, which tells us a lot right there.

One comment and then two questions for the record. Presumably what we're all about in the end is to try to maximize performance and assure accountability. To try to be able to do that, three enablers: people, process, and technology, in that order. People number one, process number two, technology number three.

Two questions that I would like you to think about for the record. First, what type of functions should be retained within the government in order to: A, manage cost, quality, and performance of whatever's been contracted out; and B, in order to perform what other functions inherently should not be contracted out, such as understanding the business, liaisioning between the business people and the technology people, et cetera.

What's core? What is truly core that if government doesn't have or a private sector board doesn't have enough people to do that both the government and the contractor is going to get into trouble over a period of time.

And then secondly, a little bit of discussion about types of services. There are certain types -- there are many types of services dealing with technology. For example, facilities management where you're talking about longer range contracts and -- versus application development or whatever else.

You look at A-76 it's driven primarily by cost. There are some areas when you deal in information technology that due to economies of scale and a variety of things cost may well be a reasonable basis to consider.

There are some areas that by definition the government's -- the private sector is going to be more expensive, and it's a cost versus capabilities equation versus just a cost equation, so any comments you have about that.

Frank, if you have something you want to mention or ask for the record, feel free.

MR. CAMM: Yes. It's related I think, and it's related to the questions we've been asking earlier.

You've obviously both taken on tasks from governments of various kinds; not just the federal government but state, local governments, and foreign governments who were moving tasks out of their own organizations to an outside source. We'd be very interested in learning how they made that decision and how that process might be brought into a federal setting. If you have examples that you could offer that would really be terrific.

MR. WALKER: Thanks to both of you. We very much

appreciate it and look forward to hearing what else you have to say through the record.

If we can we'd now like to go to our last panel, the panel of selected interested parties. I'd like to offer an opportunity of all of you to make an oral statement. Obviously your full statement will be included in the record. Anything else that you want to provide after this hearing will be for a reasonable period of time.

However, I have been informed that the record for this hearing will stay open until September 5. Therefore to the extent that any party -- anyone who testifies or other interested parties would like to present something for the record for the Panel to consider, the record will remain open until September 5.

I would encourage you to summarize your statements to the highlights. I know that I and several others have to leave at 4:00, and I really want to hear everybody if at all possible, so why don't we go ahead and proceed, and I guess we'll go in the order that were listed here.

I guess, Mr. Eckhart, you're first, and then Ms. Root, you will be next. Thank you.

MR. ECKHART: Mr. Chairman, distinguished Panel members, I'm very happy to be here. Today I rise on behalf of the represented group that is often forgotten in the A-76 process, the field-level practitioners at the end of the food chain required to implement this bureaucratic and political program. Three minutes

is really not enough time to document our observations, so we are providing point papers and a recommended revised supplemental handbook to detail our recommendations. That will be forthcoming.

We who implement your decisions have the opinion that the fundamental rules and processes are not really broken. They simply need to be focused and enforced. The process is not inherently difficult. We have made it so. We need six fundamental basic tools to fix the process.

Number one, the fairness, the appearance of fairness -- the most fundamental fairness issue concerns the treatment of the MEO. Legally, it is not an offeror and does not have access to courts and GAO protests. This is unfair according to the union. Legally, the MEO also does not have a binding contractor agreement and does not have to assume the same responsibilities and risks after implementation. This is unfair according to industry.

Our point papers discuss these alternatives to fundamentally treat the MEO as an offeror.

Number two, clearer rules -- the current revised supplemental handbook needs to be reissued to reflect all current changes from transmittals and potential changes from this Panel. Rules are interpreted differently from organization to organization, from study to study, from agency to agency. There must be a centralized source for interpretation of the rules.

A centralized source could provide a consistent

interpretation of what is inherently governmental in nature functions. It can assist in packaging accountable activities, not FTE goals; provide tested examples of what GAO and OMB consider to be true performance based service contracts; interpret acquisition and evaluation procedures appropriate for A-76; and act as a reliable repository for A-76 information.

Hotline -- I don't know how many times in 25 years and 200 studies I wish I had somebody to call. A-76 is a major tool in government reform, and the government should enforce rules and milestones and punish malicious compliance.

Number three, consistent upper management support -- we need to centralize the management implementation of the A-76 program away from the officials with the most to lose while maintaining field level participation and acceptance of the final decision. The implementation often suffers from management support that is distracted by the next crisis and required decisions often become very untimely. At all levels, we need less rhetoric and more dedication to fair and equitable implementation.

Another point paper will address our approach to establishing a help desk. This will accomplish this goal we believe.

Four, qualified acquisition office support -- we recommend the centralization of A-76 acquisitions into specialty offices that can gain expertise in the program.

Five, train qualified and available teams to conduct

the cost comparisons. Most government personnel qualified to perform A-76 already have full-time jobs. The field is severely lacking in trained, qualified, available personnel to provide quality implementation and fairness. We recommend that the government certify a training curriculum. We also recommend modifications to the RSH skill sets required for each team.

And finally, number six, the flexibility to be professional in our craft -- provide flexibility in implementation. The diversity of situations in the field dictates the need for flexibility. It could include proposing case-specific cost factors, the ability to propose changes in scope to improve accountability and performance-based approaches, the ability to request review of MEO decisions that seem unrealistic to an IRO, rights of discovery within a revised administrative appeal process.

We believe the studies can be completed in 12 to 18 months. Thank you.

MR. WALKER: Thank you, Mr. Eckhart. We look forward to receiving the additional information. That will be very valuable to us. We appreciate that.

I think I promised Ms. Root that she would go next, and then Mr. King. Please.

MS. ROOT: Thank you. Mr. Chairman, Panel, thank you for the opportunity to address you. I'm the MEO team chief at Maxwell.

In April of '98 we began our A-76 journey. The competition includes 874 positions of which 402 are civilians. We are now in the 40th month of what was promised to be an 18 to 24 month study. I'll divide my comments into three areas, the three areas that we've heard today: cost, savings, and efficiency.

In the area of cost let me tell you what it's cost Maxwell so far. These statistics come from the manpower and quality office as of July 31. Hard costs, \$3,983,794.61; soft costs, \$4,302,040; mission, and more important, moral costs, 281 military vacancies in the positions that are affected. The significant influx of training students and new recruits replacing senior leaders.

Seventy-seven civilians have separated. 108 civilians have gone on to our sister services or other bases and have been replaced by temporary employees. That's 185 civilians. They averaged 13.52 years of service each.

This is a five-year study with a five-year option. You can't replace what we've already lost. Five of our key eight squadrons are at less than 50 percent manning. One is at 37 percent manning.

Savings -- the MEO prevailed in the initial decision by \$6.5 million. After an intense Air Force review we sustained with a \$1.4 million difference. The contractor protested. It went to the GAO. They sustained the contractor. The difference after the 10 percent differential will be \$188,000 over five

years.

Many conclusions can be drawn from that, among them the evaluation process needs to be overhauled.

In the area of efficiency, one of the key problems is that we consistently use the term synonymously with cost savings to an exclusion. Do you really want efficiencies or do you want cost savings? If it's high performance teams that we seek we have to clearly define what the goals of those teams are.

You asked about what you could if you didn't use A-76. Our work force submits that if you remove the threat of job loss the implied threat is enough. Telling us, "If you don't get it right we will find a way to get it right," is enough. If you insist on using the A-76 we suggest that in addition to the work you're doing that you look at and revise the FAR process, improve the guidance on releasing proprietary information, enact clear guidance which gives the federal work force a voice.

Interestingly enough I'm listed under the interested parties on this. This is the only place as a federal employee in this process that I'm either affected or interested, and I assure you I am both.

Define the best value criteria and make it equal. Provide training. We concur with our industry counterparts it's taking too long, costing too much. We believe in a single appeal process too.

If you're not going to use the A-76 processes remove

the barriers. Specifically, allow us to reengineer. Give us reengineering status at the installation level. Let our commanders make the choices of what should and should not be outsourced. Let them be accountable for the decisions. Improve the OPM hiring criteria and the skill mixes that we're allowed to use. Remove the barriers that prohibit us from using certain suppliers and insist that we use only specific vendors.

And finally, remove the fear. Motivate the employees. Return the cost savings under a performance-based initiative. Give a fraction back to the federal employees of what they save. It's what you do for contractors. All we ask is the same thing.

Thank you.

MR. WALKER: Thank you very much, Ms. Root.

Mr. King.

MR. KING: Thank you, Mr. Chairman, for the opportunity to testify at the Panel. I'm here to talk about business planning to include extensive market research, benchmarking, and strategic planning, and the importance that we place upon it, and we feel that DOD should place upon it as far as A-76 study.

I'm Scott King. I'm a principal with UMS Group, and over the past two years we have participated in eight A-76 efforts as either a prime or subcontractor with the federal government. We also have an extensive commercial practice in which we help

companies like Weyerhaeuser, Applied Materials, companies such as these to go through their own outsourcing efforts.

Prior to this time, I was a captain in an air education and training command assigned at Randolph Air Force Base, and I was assigned to develop the business plan for Pick-a-Base, their education and training command's competitive sourcing program.

You might ask why is a business plan necessary, something that I actually asked as Captain King two or three years ago when I was assigned to develop one. We had an execution plan: concentrate the positions at a few distinct bases to avoid the turbulence involved with many A-76s, many small A-76s, rolling rifts, these sort of things.

What we didn't have was a business plan to fit over the top of that. We didn't understand how we should be structuring out statements of work. We didn't understand how we should be consolidating our efforts. To do that we did some very extensive market research to build a solid business plan.

For example, we found that the focus of our peers was continuous savings throughout the life of their contract or their most efficient organizations within. We had never thought about that in AETC. What we were looking for was that initial savings. We didn't really think about what might happen in the out-years and how we should be structuring up front to make sure that we could get those savings later on.

And when we sat down with the peers and talked to them about that and they kind of made that known to us we felt, 'Wow.' This is something we should have known all along. But only in going out and doing that market research and developing a business plan were we able to find out that this is how you structure your statements of work, and what you're really looking for is a continuous process improvement.

You don't want somebody to just come in and do this for you, whether it's MEO or a contractor. You want to be able to incentivize them to always be generating improvements so that you can get your costs going down throughout the life of the contract.

Although we have seen some examples of other people other than Air Education and Training Command doing that as consultants for the past couple of years, we haven't seen it take hold as we thought it would when we exited DOD. We haven't seen the emphasis and the focus on business plan that is necessary and that we see out in the commercial sector.

All of our commercial customers go through a very rigorous market research business planning and strategic planning process prior to making any strategic sourcing decisions. They go out and take a look at their peers, who's out there as far as best practices, and what type of people they want to be attracting to come in and provide those services. We don't see that same effort up front in DOD.

As soon as a commercial company -- prior to going

into any sort of internal business process reengineering or a strategic sourcing effort, our commercial companies will go through that very rigorous benchmarking and research process.

In DOD, it seems as if you jump right into it. We started reengineering and we start sourcing right off the bat without a real good idea of what's going on in the marketplace and how best DOD should fit into that marketplace.

One of the best examples happened to us recently at a DOD base. We came in and did an assessment, and we were late in the process. The statement of work had already been developed. They asked us to come in and do an assessment of their facilities personnel to help develop their most efficient organization.

And what we found when we outbriefed all of our findings was that we were late to need. Many of the things could be implemented that we were recommending because the statement of work was already done. Things -- a very rigorous preventive maintenance program that would have probably dropped them nine or ten FTEs could not be put in place unless they stopped the train, backed up, and completely reengineered the statement of work.

If this had been done prior, they would have had a better statement of work, better business plan, and they would have been down the road.

Conversely, I'd like to cite an example on the other side in using that business plan and that extensive market research. Recently, at Malmstrom Air Force Base we did the same

thing. Although it was not an A-76, we were consolidating requirements in their facilities sector.

We went through a very rigorous market research, developed a business plan, got everybody on board. Their performance -- the amount of services that they're getting right now is up 28 percent compared to what they used to get. They're getting 28 percent more services even with a small disadvantaged business providing services to them right now.

So you can see the benefits of market research, business planning, and we think that much more emphasis needs to be placed on that in the future.

MR. WALKER: Thank you, Mr. King.

MR. KING: Thank you.

MR. WALKER: Questions. Frank?

MR. CAMM: Scott, good to see you again.

MR. KING: Good to see you too.

MR. CAMM: In your experience in the Air Force and in the commercial sector now what would you say it would take to get government organizations to do what you've just described, to go through this process? The way you make it sound it's not -- this is not rocket science. It's discipline, and --

MR. KING: I think there's a couple of things. One, when we first started off we were very poor. We didn't have any money, and in fact we really -- we took a lot of trips up to the Pentagon to try to convince General Anderson, who was in charge at

that time, just to give us \$15,000 to travel. When you look at Pick-a-Base being a \$2.5 billion program over its life and us asking for \$15,000 to go out and better understand how we might generate savings it seems like a pittance now, but we really had to fight hard for that.

So I think that making the tools and the money available to personnel to go out and do this sort of thing should be made available. The second thing, I think, is encouragement even from the outside. I've been taking a beating over the past couple of months over what's happened in Air Education and Training Command.

It seems to me over the business plan and all that sort of stuff we seem to jump on if anything goes wrong, it seems to me that we're generating bigger cost savings than we projected to generate if you really look at what's happening in Air Education and Training Command. We thought we'd be lucky to get 40 to 45 percent right off the bat, and we thought we would get better as we went base to base, and Air Education and Training Command is doing better than that.

But I think there's a lot of people there who have worked very hard. It was not very easy. We had to fight with just about every government organization there was to be able to do what we wanted to do, and now that you're generating some of those savings a lot of those people feel as though we're getting beat up for this. We worked a lot of overtime and not got paid

for it. We put a lot of our heart and soul into this, and the returns weren't really there.

I had -- one last thing and then I'll shut up -- I had a lady ask me one night as we were working until about ten or eleven o'clock, "Just exactly what's the benefit here? We're not paying any more to those people who try to go out on a limb, and many times we saw it off behind them." And I couldn't really provide her with -- she was losing classes because I had to have her all the time. She couldn't go to certain contracting classes.

She wasn't getting paid any more, and so it was very hard for me to provide her with, 'Here's the benefit you're going to get from going out on a limb with this sort of stuff.'

MR. CAMM: I guess what I'm trying to get a feel for is what's striking to me about your presentation is I don't think you used the word A-76. I think what you talked about was a way of rethinking your organization, and the question is do we need A-76 to make that happen or is there some other way to get people moving in the direction that you suggested, as you suggested earlier?

MR. KING: I think in the commercial sector it's a little easier. There's a bottom line, and you make your strategic sourcing decision after you've taken a look at the benchmarking and everything else. Then you either keep it internal or you just decide to get out of it, and once you make that decision you are getting out of it. You're not really competing.

I think A-76 is necessary to be able to provide that impetus to go. What we found though is that when you put some emphasis on the business side of it rather than just the execution side of it you're going to get people a lot more interested in some of the underlying business objectives that you need to get, and we saw that in Air Education and Training Command with our functional areas. Once we took them out to industry and allowed them to talk to different people -- not allowed them -- and facilitated that, we saw a little bit different attitude from those personnel, and we saw a little bit more -- as far as innovation and things like that really wanting to go after this sort of thing.

I think A-76 is necessary, but I think you have to put more emphasis on the market research, providing these people with the tools they need so they're not feeling like, Oh, my God, I'm getting A-76 and they're not providing me with money to go out and talk to industry. They're not providing me with any of the tools that I really need to be able to compete against these people. I think that's the key point.

MR. CAMM: Thank you.

MR. WALKER: Bob.

MR. TOBIAS: I want to make sure that I heard what you said, Ms. Root, about reengineering. Did you say that you weren't able to do the reengineering that you thought you needed in the MEO?

MS. ROOT: No. We were able to. What I'm suggesting is in place of an A-76, grant an installation reengineering status. Allow them to be able to do it without the threat of the A-76 hanging over them.

MR. TOBIAS: But what does that mean? I don't understand what that means, give them the status to do reengineering. What does that mean?

MS. ROOT: Permitting them to look at the policies that are currently in place and to request waivers to do business in a different way, to look at ways of cost savings and propose them without this driving force of loss of jobs and deadlines that are sitting there.

MR. TOBIAS: So where you are at Maxwell you can't -- the base commander at Maxwell can't do that on its own hook?

MS. ROOT: To some extent. I don't think it would realize the amount and level of savings and efficiency that you do gain under an A-76, so if you're looking for ways to gain those kind of levels but not use an A-76 I think a reengineering lab status would do it, because it puts a name to it and it lets everyone know that we're all playing on the same team and going in the same direction, and we really have a charter here, and the charter is we have to get this done within or it will come from without.

MR. TOBIAS: Thank you.

MR. WALKER: Joe and then Stan.

MR. SIKES: Just to clarify that for Bob slightly, probably at your level what you don't see is that credit is often only given for the A-76, and so the impetus wouldn't be on the base commander to try to realize them through the reengineering. He would have the ability to do it but he might not have the impetus to do it.

MR. WALKER: Part of the problem is whether you're the government or the private sector people end up behaving based upon how they're measured, and to the extent that you're measuring A-76 versus other factors then whether it makes sense or not, people are going to be affected in their behavior.

Stan.

MR. SOLOWAY: I have a quick question for you, Scott. You were talking about the business case analysis and getting people out to industry and exposing them to a lot of things, all of which made perfect sense. Did you find in your experience, either when you were in AETC or once you moved into the private sector, how difficult was it to get folks to participate and look in that big picture of ice, trying to check the block, get this thing off my table, off my desk, and so forth?

MR. KING: It was very hard. It actually took us -- we put together a cross-functional ITT, and it probably took -- we went to 12 different sites and I think it was the fourth site where it started to gel where our guys from the functional areas really started seeing a much bigger picture. It was that exposure

to industry and what was happening out there, and that there were some ideas out there that could be applied, and just as well as kind of being treated in a businesslike fashion.

Many times in the functional areas you're just told, "Have at it. Build an MEO." Whereas with this it was "We're going to go out and we're going to talk to your peers, and we're going to provide you with the tools that you need to do this."

But it took a little while before we brought people out of their shells, and it took a long time -- and even when I left we still had -- it was a growing business plan as we went along. It was a constant battle to keep everybody on the same page and moving in the right direction.

MR. SOLOWAY: But that team that you had at AETC, does it still exist to your knowledge?

MR. KING: No, sir. No. Some of us are out of the military. Some of them are still there. Veronica Roberts in the back, the A-76 program manager, said she thinks she's about the one original person from the team that went out, and that's part of it as well. You lose the core functional people who either were transferred or got out.

MR. WALKER: Ms. Root, you made a comment about that there was \$188,000 difference with regard to the GAO appeal. That's over and above the 10 percent?

MS. ROOT: That's correct.

MR. WALKER: How much money did the 10 percent

represent?

MS. ROOT: We had the \$10 million.

MR. WALKER: Ten million?

MS. ROOT: Ten percent or \$10 million, and in our case it was 10 million.

MR. WALKER: It was \$10 million?

MS. ROOT: Yes, sir.

MR. WALKER: Thank you.

Frank.

MR. CAMM: Mr. Eckhart, I'm looking forward to seeing your white papers. It sounds like you have some very interesting ideas. A number of those have been suggested by various commissions in the last few years, and in each case the problem that seems to get in the way is that if you're going to give training for A-76 maybe the training has to go to the functionals as well as the acquisition community, and they can't agree with each other on how it's going to happen or when you're going to put a central help desk together you run into the same problem. Who's going to take responsibility for that and is it going to include just A-76 or the FAR as well?

Is that a problem that sounds serious to you? Have you run into that, and if so, do you have any thoughts on how to resolve the cross-functional difficulties of going after the idea as you're suggestion?

MR. ECKHART: Yes. That's a very good question. One

certainly I've pondered for a number of years and my colleagues.

Number one, in any A-76 environment you automatically have an adversarial role in management that's performing the technical side of the review and the contract acquisition folks, and I could -- if you had six hours we could share some war stories about commanders tying up with contract officers and everything else.

But to answer your point, in our issue paper for acquisition reform, so to speak, as it relates to A-76 we're going to recommend in different case specific recommendations and cost strategies that are indeed unique to CA, and I believe ultimately that will help diffuse, Mr. Camm, some of this inherent knuckle gnashing that goes on by the nature of what we're dealing with.

MR. CAMM: The more you can tell us about how to get rid of that the better. That will be great.

MR. ECKHART: Yes. We have a -- we are addressing that issue. Thank you for asking that question.

MR. WALKER: I appreciate very much all of you for your testimony. What we're going to do now -- I understand that we have four individuals that want to speak on an open mike. I know that I and Mr. Soloway have to leave to catch the last flight back to Washington, and I'm going to ask Mr. Tobias if you could just continue the proceedings until these four individuals who want to speak on open mike have an opportunity.

I want to thank everybody for being here and just

reinforce the fact that the record will remain open until September 5, 2001. Thank you.

MR. CASTRO: My name is Juan Castro. My affiliation, I'm just a civil servant.

Ladies and gentlemen, I come before you to offer my personal observation and views on the A-76 process. May I enlighten all of us to the proper way of making the A-76 process truly successful for all concerned? In doing so I will also present possible shortcomings and serious dangers that unexpectedly come with the tradeoff of going contracting.

If government management truly wants to go contracting then there should be a direct effort to feasibly buy out as many, if not all, current civil service employees. This buyout should transcend the traditional buyouts that exist. Why?

Because if you make it extremely lucrative for the individual they as well as I will take the A-76 as a blessing. These incentives would be fashioned as those that the finest private sector companies offer when they reduce their staff.

For example, USAA here in town -- I have a friend who was retired at 15 years and with a \$45,000 severance. Recently I have spoken to another employee who also has been retired, and he's getting paid from the time they told him that he was finished working until September 2001 and will also receive a severance at the end of that to carry him another three to four months.

Those are real incentives. Therefore, if we were to

implement a five years either way \$50,000 package offering with the A-76 for restructuring, I know most every CSRS employee would be ready to go by the end of next month from such an announcement.

I hope everyone has considered the shortcomings of going contracting. If you have not you'd better pay close attention. It is amazing to me how the whole of our country is ready to jump on the bandwagon that there is no evil empire. The Russians are like us now. They are capitalistic and a free country. If not so -- it is not so. Be careful. Pay attention who they make treaties with.

Then there is the Republic of China. I don't believe they are in complete step with us. Yes, they trade with us, but they still do what they want to do, and they are still Communist.

Yet currently the most active protagonists are the Moslem extremists groups exporting their terrorist activities around the world. Just recently a letter bomb exploded at Medina Base, annex to Lackland, injuring one person. As we had to go to Threatcon Bravo real life I was wondering how any military installation is going to shield themselves from such attacks if they go contracting.

The contractors flow in and out through the company.

The contractor is there for the money. They are not and should not be held as accountable as a military or civil service employee, for the military and civil servant take an oath when they are hired. That is why their security checks are maintained

by in-house security personnel. If you go contracting you simply surrender that control. I don't care how you may want to cut it, you will always come back to that same fact.

Look at what happened at Randolph Air Force Base when after a contractor started working on base they found several of the contractor employees from India did not even have green cards to work in this country. What a blow to the Air Force. The other day while we were on Threatcon Bravo I advised a contractor to move his vehicle so the building parking lot was empty, and I saw the contractor just leave off base after I told him about the bomb explosion. I guess an oath still binds tighter than a contract.

But remember, we are saving money. I just want you to explain to all of us if it really is worth the unseen savings if the bubble should ever go up.

Thank you very much.

MR. TOBIAS: Thank you, Mr. Castro.

Are there any questions?

(No response.)

MR. HANKINS: I'd like to thank the Panel for an opportunity to speak. I wasn't really planning on speaking this morning, but I felt that I --

MR. TOBIAS: Would you mind identifying yourself for the record, please?

MR. HANKINS: I'm sorry. My name is Gary Hankins. I'm with Ft. Sam Houston.

MR. TOBIAS: Thank you.

MR. HANKINS: I wasn't expected to speak this morning until I listened to some of the comments and questions that came forward, and I felt as a person in procurement that I felt like I could make a couple of points.

I currently have six A-76 studies of which I'm contracting officer, the largest one being the Ft. Sam Houston study. One of the things that has always bothered me about the whole process of the A-76 process is particularly the rules that we live within the Office of Personnel Management that affect the studies themselves, and what I mean by that point is that currently we're very limited in the MEO and very limited in what we do in the contracts based on the current GS and WG schedules.

Within the Department of Defense, we have a demonstration program called the Acquisition Demonstration Project, which allows three elements: it allows pay banding, pay based on performance, and movement of personnel between areas. That demonstration project has proved to be very successful, I think, within the Department of Defense and I think programs such as that implemented on a government-wide basis would help various federal organizations reach much larger objectivity and be able to get more efficiencies.

The second point that I'd like to make is the need within the contracting community for more training with the A-76 environmental or commercial activities. Many contracting officers

are put in the position to become business advisors, and while they may have great knowledge of the FAR and acquisition procedures many of us do not have a great deal of knowledge on A-76 procedures and the circular.

I've been working approximately one year on these A-76 studies, and I spend approximately 30 percent of my time dealing with the circular Army-DOD regulations and interpreting GAO decisions as a result of A-76 studies. I can say as a contracting officer -- and I believe others that have worked the studies--is that an A-76 procurement is not a normal procurement.

It does not follow the same procedures that we have in procuring goods or services on a standard basis.

The third thing I'd like to make a comment on is we've heard quite a bit about centralized management within A-76 studies. What I've come across as far as procurement goes is that I think that that's a very viable and a very good concept to organize, particularly in the procurement environment. What we have done in our organization is we have taken a group of contract specialist contracting officers, and their only function is to work A-76 studies.

Because of the time that it takes to evolve and actually learn the circular and the various DOD regulations in our particular case, we just don't have the time to bring other contracting people in and out of that process, so by having a dedicated group of individuals, I think that we're much more

efficient and the process is much more fair when it comes to actually performing them.

So those are just the three comments I wanted to make.

MR. TOBIAS: Thank you very much, Mr. Hankins. If I could I'd just like to expand on one point you made. I appreciate your comments on the issues that affect OPM.

They fit loosely under the category of compensation reform, which is much broader than A-76. It's an issue that the new director, Kay Coles James, is extremely interested in. We spent the better part of yesterday in briefings and meetings on it, and it is on our radar screen. Thank you.

MR. CREACY: Good afternoon. Thank you for this opportunity to address the Panel this afternoon. My name is Mike Creacy. I am a trainer at Corpus Christi Army Depot.

I'd like to start by saying that the government employees -- that we're not afraid of the competition, but we want fair competition. Most of the obstacles to fair competition have been based on rating, so I'd like to take this opportunity to answer a couple of questions that were asked earlier today by a couple of panel members. One question that was asked is what can be done to maximize efficiency of the organizations, and the other question was what effect does partnership relationships have on creating a more effective organization?

As most of you know, former President Clinton has

issued an executive order creating a national partnership council and mandating that agencies bargain with certain management rights. As a result of this executive order, we created at the depot a partnership council.

In 1998 the depot was not doing very well according to some of our goals and things we had set as a depot, so our partnership council got together and we decided that as a council we need to see what we can do to improve these goals. Myself, as a member of the council, I was detailed to work on the council for one year, and as part of that detail I was going down in the work centers, going down and visiting and holding informational meetings with each work center, visiting with employees, looking at ways that we could have come in as a council and redo some of the things that we're doing.

We wanted to create a high performance organization that operated efficiently and performed our number-one mission, which is to support the soldier in the field, and with the best product we could provide.

I started off conducting these meetings, meeting with the work centers and meeting with employees and getting the input from them about how we as a depot could turn around and revamp some of our process and fix some of the problems. We met with both white-collar and blue-collar workers.

I took all the data that I gathered in this period and I went back to the strategic planning committee. We met back

with the partnership council. We looked over the data and seen what we could do to fix it, and we implemented probably 80 percent of the recommendations of the employees had suggested we needed to do to fix some of the problems.

From there in FY '98 we were losing money. In FY '99 we made a \$68 million profit at the depot. As a government agency we're not allowed to make money, so what we did at that point is we scheduled in FY 2001 to lose money so we could give this back, give the profit back to the employees or back to the government. At the end of last month our goal at the depot was to lose \$37 million as a way to give this money back. At the end of last month we actually made \$4 million, so it seems we can't even lose money now when we try.

(General laughter.)

MR. CREACY: This was a direct result of the partnership council working together and labor and command who worked to look at a different pile of problems and fix it. So a true partnership does work. Who knows better how to fix the problem than the person who does it?

The current president had rescinded the direct order, but I believe a true partner does work, and the only way to improve government services is to get both parties involved working through partnerships to identify the problems and fix it.

As I mentioned earlier, we set up a goal this year to lose \$37 million to give the money back. I challenge any

contractor to take before your stockholders the concept of losing money to give back the profit and see their reaction.

Thank you.

MR. TOBIAS: Before you leave, are there any questions?

MR. HARNAGE: Yes. I have one.

MR. CREACY: Yes, sir.

MR. HARNAGE: What happened to the partnership? Does it still exist?

MR. CREACY: We still have the partnership there because our commander has seen what it does; it's proved to him that it doesn't matter what the executive order says if I can rescind, but we still have a partnership there because it does work.

MR. TOBIAS: What was the turning point for making that partnership work?

MR. CREACY: Basically, both of us knowing together that if we didn't succeed that we weren't going to be there. We looked at it, and we got all the employees to buy into that concept that we had to operate the installation as a business, that we all had a stake in the business.

We are the stockholders of that business. Not only are we the employees but we are taxpayers, so we all have a stake in succeeding or making the depot succeed, so we all got involved in it, and we've all had input, every employee.

As I said, we've met individually with every employee and took all their suggestions together back to the council and were able to totally revamp the way we did business in order to turn it around from losing money to making money.

MR. TOBIAS: How important was the attitude of the commander of the base in making this partnership work?

MR. CREACY: Our top-level management, the very top level, the depot commander and his directors, they gave us 100 percent participation. The problem in mid-level management, keeping them turned around, had employees tell them how to run the business. It's a new concept to us. It took time to get them turned around to the idea, but it works.

And the supervisors at my particular work center stated that we had had the best record of any work center in the depot, any work center whatsoever. The commander called up and said, What have you done in your work center to improve it? He said, I don't know. I've been gone on leave for the last six months and they've been running the shop themselves.

(General laughter.)

MR. CREACY: Thank you.

MR. TOBIAS: Thank you very much.

MR. FLORES: My name is Roy Flores. I'm vice president for the American Federation of Government Employees, and I just had a couple of points that I wanted to point out. I believe that we're looking for ways to improve the A-76 process

all the way around to possibly give the federal employees a better playing field -- a level playing field so we can compete for our jobs, and if we do get a level playing field, we will win not only 60 percent of the government jobs that we have now, but we'll win more than that, because we'll do a better job.

One of the things that that A-76 process should include -- has to include is a tracking of the costs. Once a piece of the base is contracted out, there's no way to track those costs and the savings. Some of the panel members -- not the Panel members, but some of the people that were testifying here today were saying that they saved this money and that money, and we -- the newspapers and everybody around us is saying that there's no way to track those costs. There's no data on how much we saved. If we contract out a piece of work five years ago today they can't tell me how much was saved through contracting out that piece of work.

So there needs to be a way to track costs four or five years later to see if there is any savings or not.

The next thing that needs to happen is, if there are not any savings, recompetete that work and give the employees a chance to recompetete for those jobs. That's not in the A-76 process. The A-76 process should allow us a chance to recompetete, to allow us to bid for those jobs and bring them back in house. That's a crucial point. If you're going to make any changes to this system that needs to be in there, a way of fulfilling both

the recompetete for their jobs. It's very important.

One of the other things that really bothers me is some of the retiring colonels, some of the retiring generals, they go to work for these companies and they have the inside on how every penny is spent on these bases, and there should be something in the A-76 process that addresses this concern.

I know that here at Lackland we had that problem when they hired one of the managers, and somehow or another he found some loose money or he found some -- I don't know what they found, but they decided that the federal employees did not win that appeal and that it needed to be reversed, and that's what got us into the mess we're in here at Lackland.

So there needs to be a way to -- I don't think it will be legal for those generals or whatever to go work for the contractors, but it sure stinks. It really leaves a bad taste out there for everybody. I think whole country -- it really stinks.

Thank you very much for your time.

MR. TOBIAS: Thank you very much. Are there any questions?

(No response.)

MR. TOBIAS: Thank you very much for your testimony.

I'd like to thank all of those who testified today. It was very educational and informative for the Panel, and for those who we've asked questions and will be submitting their answers we look forward to receiving them.

Thank you very much.

(Whereupon, at 4:15 p.m., the meeting was concluded.)